REVIEW

OF THE

ANNUAL REPORTS

OF THE

PHILADELPHIA AND READING

RAILROAD COMPANY

DURING THE PRESIDENCY OF F. B. GOWEN.

[*From the Financial Column of The Philadelphia Record, and other sources.*]

To be had at Zieber's, N. W. Corner Third and Walnut Streets,

PRICE FIVE CENTS.

FOURTH EDITION, MARCH 12th, 1880.

REVIEW

OF THE

ANNUAL REPORTS

OF THE

Philadelphia & Reading Railroad Company,

DURING THE PRESIDENCY OF F. B. GOWEN.

From the Financial Column of The Philadelphia Record, and other sources.

FOURTH EDITION, MARCH 12th, 1881.

REVIEW.

THE grand crisis in the affairs of the Reading Railroad Company is rapidly approaching, and with the issue of the next annual election may be said to rest the future fortunes of the corporation. The present president has held his office since April 28th, 1869, and has presented since that date eleven annual reports, and as he is a candidate for re-election it may be well to review these documents for the purpose of ascertaining how far his past policy furnishes warrant for continuing him in office.

The balance-sheet for 1868 showed the bonded debt on November 30th of that year to be $7,930,225.17 after providing for the payment of which there was a clear surplus above the share debt of $1,921,975.78.

The year 1869 was a prosperous one, the balance-sheet showing no increase of debt, but an increase of surplus to $2,258,284. The only departure from the hitherto conservative policy of the company was the negotiation of a new loan of $5,000,000 to be issued in 1870.

The year 1870 was, however, destined to be more eventful. Of the forty weeks of the shipping season, about one-half was lost in consequence of a disagreement

between the operators and the workingmen. During the year the company leased the property of the Schuylkill Navigation Company, the loss on operating which by Reading for six months, was 11,973.88. Several railroads were merged under Reading's control into the Mahanoy and Shamokin Company, and the Germantown and Norristown roads were leased. The result of the year's business was to increase the bonded debt to $13,841,877, and to decrease the reserve to $1,851,023.58. Coming events began to cast their shadows before, and the president seems to have thought it necessary to impart that rose-colored hue to his statement, and to indulge in those sanguine but baseless predictions, which form prominent features of all his subsequent reports.

The year 1871 inaugurated the fatal policy which in 1880 culminated in the ruin of the company, and for this reason merits special notice. Various reasons have, at different times, been assigned by the president for the purchase of the coal lands, but that set forth on page 16 of the report for 1871 was the earliest, and given when the transactions were yet fresh. The passage reads as follows:—"The repeated and serious interruptions of the business of the company, caused by strikes in the coal regions during the last few years, and the many fluctuations in the coal trade, produced by alternate periods of expansion and depression resulting therefrom, have directed the attention of the managers of the company to the necessity of exercising some control over the production of coal, so as to prevent a recurrence of the difficulties heretofore experienced—and it was believed that the best way of accomplishing this result, without injuriously affecting individual interests, was for the company to become the owners of coal land situate on the line of its several branches."

On page 125, report of January, 1878, Mr. Gowen, speaking in London before the foreign bondholders' committee, said:—"For I must take upon myself all the responsibility for the purchase of coal lands." And, proceeding, he states (page 126), that "The State offers to any rival company full authority to construct an adverse line of railway." "It seemed to me, therefore, necessary to place the Philadelphia and Reading Railway in such a position that its mineral traffic could not be taken away from it, and I knew of no other way than by their becoming the purchasers of the coal land itself."

But at page 37 of the pamphlet issued by Mr. Gowen under date of December 6th, 1880, he gives a third and totally different reason, from which it would appear that he intended from the beginning to convert Reading into a trunk line road, and only bought the coal lands, at a cost of $50,000,000, in furtherance of the project. On page 38 he continues:—"I thought I saw then, as I surely do now, that the struggle to secure the east-bound western freight would be determined in favor of the company that could furnish a western-bound tonnage for the returning cars. The enormous quantity of Western produce seeking shipment from the Atlantic ports is so great in comparison to the quantity of merchandise going westward, that the trunk lines must depend principally upon anthracite, the future fuel of the prairies and the lakes, to load their returning cars."

Each of these reasons is a good one of itself to a company having adequate capital for the investment, but it is impossible to consider the various dates at which they were written, without coming to the conclusion that the hindsight of the president is vastly better than his fore-foresight. On page 17, report for 1871, it is stated that "about seventy thousand acres" were acquired in 1871 "without imposing any serious financial burden upon

the company, for the lands purchased are already so far developed that it is estimated they will produce in rents, during the year 1872, $1,200,000."

This is in very decided contrast to Mr. Gowen's claim before the London committee (see page 144, report for 1877) that it was because of the undeveloped state of the coal lands that it was found necessary to charge the interest upon their cost to the capital account on the books of the coal and iron company. This matter will be referred to again in its proper order of date.

Doubtless for cogent reasons, no report of the doings of the coal and iron company was published until November, 1876, and then the rents credited for that year amounted to $909,690, about three-fourths of the sum predicted by Mr. Gowen four years previously. The same paragraph continues:—"And it is believed that in less than three years the net annual revenue arising from the lands will be greater than the interest payable upon the loan issued to secure them." Now mark the result of this prediction. The report of the coal and iron company for 1876 shows a balance of interest against it for that year alone of $824,575, and a further loss by depreciation and loss for that year alone of $653,359—a total loss for the year of $1,477,934. What the loss for the years 1871, 1872, 1873, 1874, and 1875 was, only an examination of the books will reveal. The loss on the business of the Schuylkill Canal, including the transportation line, for this year (1871) was $15,446, but, nevertheless, with reference to it we find the customary cheerful prediction (page 19):—"Henceforth it is believed that the lease will be a source of revenue to the company." During the next year (1872), however, the loss on this account was no less than $351,265.52. The managers seem to have wanted some more canal, and, accordingly (page 20), "authorized the lease of the Susquehanna Canal, the possession of which seemed to

be necessary to the proper development of the western coal fields." The loss on this lease for 1872 was $116,490.08. The balance-sheet of the company for the year (1871) showed the permanent debt of the company to be $25,796,884.20, and the surplus fund, $2,504,420.10.

The year 1872 was in many respects a notable one in the history of the dual company. The output of anthracite reached the largest figures ever known to that date in the history of the trade, being no less than ten million six hundred and seventy thousand tons. This was of course caused by active competition, as was only too clearly demonstrated by the low price of both coal and freight, that ruled through the season; and, although the greater part of the product was worked off, it was only at such a sacrifice as reduced the railroad's reserve from $2,504,420 to $1,958,003, a net loss of $546,417. The loss of the coal and iron company for the year can only be ascertained from the books, as no report of its operations was ever published. The supression can only be considered as a palpable evasion of a fiduciary trust. No report of the business of the coal and iron company was made until November 30th, 1876, and if it shall appear that this long and willful suppression of the facts in the case, by depriving the stockholders of the opportunity of applying at the proper time the proper remedy, has worked eventually the ruin of the company, it is difficult to imagine on what grounds any persons concerned in it can have the hardihood to present themselves for re-election.

But to return to the report. Notwithstanding the experience of the year, the usual hopeful perdiction is made (page 31) that the entire production "will amount to at least four million one hundred thousand tons during the

year 1873." The result was three million two hundred and eighteen thousand three hundred and seventy-six tons. In accordance with their sanguine views the managers issued a prospectus for a new debenture loan of $10,500,000 seven per cent. convertible bonds. The financial result of the year was to increase the permanent indebtedness of the railroad company to $33,120,804, and to reduce its reserve to $1,958,003. But by far the most remarkable event in the year's administration was the beginning of the charges by the railroad company to the coal and iron company of interest on money advanced. As the railroad company was the real owner of the lands, as manifestly appears by the placing among its assets in the balance-sheet of the year the sum of $26,366,116 for coal lands of Philadelphia and Reading Coal and Iron Company, the absurdity of the charge is apparent.

It has not yet been discovered, unless by the Reading management, that taking money out of one pocket and putting it in another will make a man any richer, nor that a person can stand in a bushel basket and lift himself by the handles. But there is quite another aspect to the matter. The balance of interest added to the earnings for the year is stated at $846,478, and includes what are termed "receipts" from the coal and iron company. If these receipts were cash receipts the statement may be right, but if they were not, but were simply a book-keeping charge to an insolvent concern, the employment of the word "receipts" was deceptive and so far forth a fraud on the stockholders and the bond-buying public.

In continuation of yesterday's remarks on the Reading Railroad, it may be said that for the year 1873 the tonnage, gross receipts, and net profits of the twin companies were

greater than those of any previous similar period. The reserve fund showed an increase of $534,202, but the permanent debt was also increased by the amount of $11,064,901, to $44,185,715. The "balance of interest" account, including "receipts" from the Philadelphia and Reading Coal and Iron Company credited to net earnings, this year was $957,930, accounting, in a mythical way, for the increase in the reserve fund. The rent account from the lands was $1,117,262. As the indebtedness for the coal lands was presumably $40,000,000, the interest on which would be some $2,500,000 per annum, it will be seen that unless the companies were making a handsome profit on their mining operations, they were, so far as rents were concerned, losing money rapidly. This, however, did not prevent the management from creating a new improvement mortgage loan of $10,000,000 in gold. They prophesied, as customary, an output of 4,000,000 tons for 1874, which, as customary, was verified by a production of 3,006,774 tons. On page 27 of the report "it is believed" that the net revenues of the company are sufficient to meet all interest, provide for sinking funds, and continue the usual dividend to the stockholders. To clinch this, a table is given on page 28, showing a surplus of $34,227,671, equal to a premium of $49.94 per share on the par value of the stock, that is about 100 per cent.

The year 1874 witnessed an increase of the permanent debt to $58,155,138. "*Vires acquirit eundo.*" The reserved fund, however, fell off to $1,870,753, a decrease of $621,452. This was on the principle observed by the sober-minded Charles Lamb, who, on being chided for reaching his desk late in the morning, responded that he made up for it by going away early in the afternoon. The mythical "balance of interest account" reached the goodly sum of $1,280,859—a very handsome addition

to the dividend fund of a company whose net earnings without it were only $2,664,513. The net profits (page 20) were increased by $362,439 over those of the previous year, which, by a remarkable coincidence, is very nearly the sum by which the mythical interest charge was increased. "Had the traffic kept up to its usual amount in July and August, this increase of net profits would have been from $1,000,000 to $1,500,000." Which nobody will deny.

The usual optimistic tone pervades the report. Its author finds sermons in coals and good in everything. The Schuylkill Canal, with the Transportation Line, made a loss of $216,927; the Susquehanna Canal a loss of $161,019, and even the colliers and barges showed a loss of $42,713; but then, as is forcibly remarked on page 23, "had the rate kept up to the standard of 1873, the line would have shown a handsome profit." The important announcement is made that no more coal lands will be bought, and that the only improvement wanted to complete the system is a depot capable of storing at least five hundred thousand tons. The tonnage from the company's land fell off from three million two hundred and eighteen thousand three hundred and seventy-six tons in 1873, to three million six thousand seven hundred and seventy-four tons in 1874; but, then (page 29) the "annual capacity" of the collieries is shown to be five million one hundred thousand tons, and "it can not be long before it will be absorbed by the increasing demand, and additional collieries will have to be opened to produce more coal." Again: "When it is considered that the anthracite coal trade of the United States has now reached an annual product of nineteen millions of ton; that it has doubled every ten years during the past; that in ten years it will be forty millions of tons." Of these ten years, six have now elapsed, and the annual

product has grown to twenty-three million eight hundred thousand tons for 1880; that is, an increase of four million eight hundred thousand tons, leaving the coming four years to make an increase of sixteen million two hundred thousand to bear out Mr. Gowen's dictum. It is almost pitiable, but still ludicrous, to read on the same page that "the managers have felt it to be the part of true wisdom to prepare for this inevitable increase of trade in proper time."

In the year 1875 a prolonged strike took place, the consequence of which was the reduction of the company's surplus to $999,517. The permanent debt was increased to $60,208,261. The mythical "balance of interest account" credit jumped up to $2,269,330. The tone of the report, though not so buoyant as usual, is nevertheless quite encouraging, because it is believed (page 16) that the determined stand taken during the struggle has resulted in permanently rescuing the property from the arbitrary control of an irresponsible trades union. The reserve fund is acknowledged to be practically exhausted, and the consideration of the next dividend is postponed from April until July. The company's lands produced during the year three million thirty-two thousand one hundred and ninety-one tons of coal.

The report concludes by announcing a fresh issue of $10,000,000 of general mortgage bonds, the prospectus "having been issued in London as lately as January 1st." Late as this was, however, it was early enough to forestall the publication in England of the annual report and its disastrous exhibit, and it was the last opportunity ever afforded the British public to subscribe for general mortgage bonds of the Reading Railroad Company.

The year 1876 brought the culminating point in the affairs of the companies. The last year's surplus of $999,-517 was not only exhausted, but the profit and loss account showed a debtor balance of $1,355,708. The

mythical credit of "balance of interest account," which, in 1875, had furnished $2,269,330 towards the $3,427,-457 paid in dividends, was this year not ventured upon, and in consequence, the company paid in July the last dividend it ever declared, two and a half per cent. on the preferred stock only. For the first time in the history of the administration (page 22 of report of January, 1877) it is admitted that "the financial condition of the company, aggravated by a large floating debt and heavy charges for interest and sinking funds," is causing solicitude. The large deficiency is attributed to not only the depression in business, but also to the unfair working of the associated companies. The general tone and argument of the report are weak, lame, and inconsequential. Here is a specimen from page 32. "It must be borne in mind that a very small proportion of the entire estate of the coal and iron company is as yet improved, but even though so large a proportion is now unproductive, it is believed that at any price for coal which would justify individual capital engaging in the business of mining, the coal and iron company could earn and pay the interest upon its entire debt and capital, and if the railroad company was in the receipt of but six per cent. upon its investments in the coal and iron company, the aggregate of such sum would equal eight per cent. upon its entire capital stock." The writer of this paragraph must have known that the prices obtained for coal would *not* justify individual capital engaging in mining, because the business had already passed into the hands of large corporations who owned the land and mined, transported, and sold the coal. On page 26 of this same report the following language occurs:—"And there could have been but one end to a competition for the control of the markets between the product offered by the corporations who united all the profits of landlord, miner, transporter, and merchant, and that upon

which the landlord first required a royalty, the tenant a profit as the miner, the railroad company some compensation for transportation, and which eventually only reached the consumer through the hands of a factor or middleman."

The floating debt is stated at the astounding sum of $8,272,359. Astounding, because this report is the first one that gives any intimation that any floating debt existed. It seems probable that several years must have been required to run up such a debt; and if this was the case, what can be thought of a management that could conceal from its stockholders a liability of such a frightful amount, equaling, indeed, nearly one-fourth of the aggregate of the share capital? What confidence could be reposed in such a management for the future; or who, if he bought one hundred shares of the stock on the market, could form any guess as to the value of his purchase? On page 33 we read:—"The managers have no doubt of the ability of the company to earn sufficient to meet its fixed charges." And yet, within four months of the date on which this was published, Mr. Gowen stood before a London committee of bondholders asking for an extension of time of payment on these charges! The loss of the coal and iron company for the year was $1,477,934.

The report for 1877 begins by stating the loss of the company for the year at $163,450.60, besides the sinking fund charges, followed in the same paragraph by the characteristic statement that, "as by the operation of the funding scheme hereafter to be referred to, $863,122.50 of the said amounts were payable in scrip, it follows that the net results of the year's business of the railroad company shows a profit of $699,671.90; more than sufficient to meet all fixed charges, which by the terms of the funding scheme, were payable in cash." Here is the man in the bushel-basket again! The "sinking fund charges," which were part of the covenant under which

certain bonds were bought by the public, are there ignored entirely. The "funding scheme" referred to was a plan by which accruing interest to the amount of $8,157,165 was prepaid in interest-bearing scrip, thus having the effect of compounding the interest. The scrip was convertible into seven per cent. income mortgage bonds at the option of the holders.

On page 20 the managers confidently expect to reduce the floating debt to the extent of very nearly $2,000,000, "no matter what may be the prices obtained for coal or the rates received for transportation." Always excepting Mr. Micawber, Harold Skimpole, and Mark Tapley, it is believed that there is but one person on earth capable of seriously framing such a sentence under such circumstances. The result was that not only was the floating debt not reduced very nearly $2,000,000, but we find it stated on page 19 of the report of January, 1879, that "the managers have not only been unable to make any reduction in the floating debt, but its volume has been increased by the amount represented by the wages certificates now outstanding." This amount is given on the same page at $983,141.59!! Pages 30 and 31 contain the stereotyped confident assurances of a brilliant future, but the managers, nevertheless, considered it prudent to unite with the other companies in forming a board of control, by the operation of which Reading would receive twenty-eight and five-eighths per cent. of the entire tonnage. The report concludes by giving four categorical answers to certain charges brought against the management by Mr. Charles E. Smith, a late director and former president of the company. They will be considered in the next review.

In continuation of the review of the prominent features occurring in the published reports of the Reading Railroad Company, it is proper to allude to the four categorical answers to the charges brought against the administration by Mr. Charles E. Smith, which were as follows:

"*First.*—It is not true that any dividends were made which were not earned, except upon the hypothesis that it was necessary to reserve the 'actual profits' of the railroad company, which were due to its stockholders, for the purpose of paying the interest upon the cost of the property of the coal and iron company, pending the period of the investment of the money for its purchase, and the improvement and development of the estate, which interest was, in every respect, an entirely proper charge to the capital of the coal and iron company."

Now, although Mr. Smith needs no justification in the position he took—that it was fraudulent to declare dividends upon supposititious receipts and issue bonds to raise the money wherewith to pay such dividends—it may be well to examine the answer on the merits. It will not be denied that the railroad company and the coal and iron company, although separate organizations in law, were one in fact, and that the former company owned, and does own, every acre of land now standing in the name of the latter company. The railroad company bought the lands—on several pretexts, to be sure—but it bought them, issuing its own bonds for a portion of the purchase-money, and guaranteeing the payment of such purchase-money mortgage bonds as were made by the coal and iron company. The fact that these lands were bought for the account of the railroad company is proven by the entering of the property on its balance-sheet, derived from its ledger, vide page 34, report of January 12th, 1874:—"Assets—Coal lands Philadelphia and Reading Coal and Iron Company, $26,366,116.04." This being the case, nothing can be clearer than the proposition that no "actual profits" could be made by the railroad company until after the interest on its bonds was paid by it. It was the real or professed belief of the management that the coal and

iron company would be able from the outset to earn enough to pay the interest on the cost of the property, but this insane idea was, of course, never realized; and the iniquity of the proceeding consists in the fact that the management knew from year to year—from 1871 to 1875—the true state of the case, but kept it from the knowledge of the public by refraining from publishing the operations of the coal and iron company. The management found that it was impossible for it to pay this interest and also the customary dividends; but if the latter were discontinued the credit of the company would be ruined, and no more bonds could be sold. In this dilemma it determined, it would seem, to avail itself of the legal status of the coal and iron company and charge it with interest, although the railroad company stockholders were, and still are, the sole stockholders of the coal and iron company. The charge was made, the amount being carried to the credit of the dividend fund on the books of the railroad company; but as no money was paid by the coal and iron company to the railroad company, the latter, of course, had to issue its bonds to raise the money wherewith to pay the dividends, the payment of ten per cent. dividends serving, in its turn, to make a market for the bonds. On the books of the coal and iron company this interest *was actually charged to the cost of the coal lands*—an absurdity, to use no harsher term, that only the Reading management could have been guilty of. After the matter was unearthed in November, 1876, by an investigating committee, of which Mr. Smith was chairman, the excuse was offered that the charge of interest was made only pending the development of the coal lands; but plain-dealing people will see at once that this was the very period when the coal lands should have been relieved from such a charge. But even had the two companies represented distinct and

separate interests, the charge of interest to the coal lands account on the books of the coal and iron company was ridiculous, because it added nothing to the intrinsic value of the lands as assets of the company, and this is what the account is supposed to show, as nearly as may be. But the full damnatory effect of the charge on the earning capacity of the coal and iron company can be only appreciated by a reference to its balance-sheet. This shows that the cost (or value) of the coal lands having been fictitiously raised to the extent, it is said, of over $14,000,000, by charges of discount, commission, and loss, the liabilities of the company were, of course, correspondingly augmented in the issue by it to the railroad company of bonds and stock, of which the latter holds now $39,000,000 of the first and $8,000,000 of the last. It follows, therefore, that the coal and iron company is condemned to pay interest upon more than $14,000,000 of obligations for which it never received one dollar in value. It is to be feared that a management capable of such conduct must forever knock in vain for admission to the "sanctuary of folly" on a showing of this kind.

Answers Nos. 2 and 3 appear to be simply questions of veracity, but No. 4 is of a different character.

It was charged that prior to the year 1876, whilst the railroad company closed its fiscal year on the 30th of November, the coal and iron company made up its books on the 31st of December, and, indeed, published no balance-sheet of its affairs; that, taking advantage of this circumstance, the railroad company, in order to make its liabilities appear in its annual report less than they really were, charged off on several occasions large sums to the coal and iron company about the 30th of November, and their purpose being served, soon afterward re-transferred them, and that to some of these entries the book-keeper, to escape responsibility, added a note that they were made by direction of President Gowen. The answer

(No. 4) to this charge reads as follows:—"The so-called improper transfer of floating debt from the books of the railroad company to those of the coal and iron company was simply placing upon the books of the latter company the bills payable issued by it for its use, and which it was primarily liable to pay.

"The fact that, to give credit to and to increase the market value of such paper, it had been accepted by the railroad company, who placed its name upon it for the benefit of the coal and iron company, did not require that the bills issued should be entered as bills payable upon the books of both companies—thereby doubling the amount of obligations actually outstanding—and as it was proper that this paper should be upon the books of that company primarily liable for its payment, and for whose benefit it was issued, the transfer was entirely right and proper, but when it became necessary for the Reading Railroad Company to negotiate with the creditors of both companies for an extension of time for the payment of the floating debt, the whole of the indebtedness was assumed by the railroad company and at once entered upon its own books."

This answer appears on its face to be untrue, evasive, and frivolous. Untrue in stating that the transfer was simply placing upon the books of the coal and iron company the bills payable issued by it for its use, and which it was primarily liable to pay. The paper in question was the acceptance by the railroad company of the coal and iron company's drafts, and as such appeared on the books of the latter *not* as bills payable, but as bills receivable, the railroad company taking credit on book account, in the same entries for their amount. It is untrue, also, that the coal and iron company was "primarily liable to pay," either theoretically or practically. Theoretically, the presumption of law is that the acceptor of a draft is the maker of the paper, and as such

is first liable; while practically, in the case under consideration, the railroad company on its books charged the coal and iron company and credited bills payable account, holding the coal and iron company liable on book account, *which book account was settled* in 1876 by the issue by the coal and iron company to the railroad company of $7,000,000 of its capital stock. That settles that question.

It is evasive, because avoiding or failing to give any explanation as to the manner in which the amount of obligations was doubled in the first instance and so made a transfer necessary.

It is frivolous, in stating that the re-transfer was caused by the necessity of negotiating for an extension of time for the payment of the floating debt, as the negotiation could not have been affected favorably or unfavorably by the entries in question.

The report for the year 1878 is certainly one of the most extraordinary business documents ever composed. Its author seems finally to have lost all comprehension of the meaning of his native language. The loss on the railroad business for the year was $832,047, but the absurdity is repeated (page 18) of showing a cash surplus because a portion of the interest was payable in convertible scrip. But this surplus is more than absorbed by the losses of the coal and iron company, so that the cash deficit of the two companies is stated at $824,950. Now read, please, what follows:—"This cash deficit has been 'supplied' by 'withholding' for three months the salaries and wages due to the officers of the railroad company, which arrears have recently been 'liquidated' by payments in wages certificates." Without circumlocution the railroad company's loss for the year, besides failing to make provision for its sinking funds, was $832,047, and that of the coal and iron company was $1,840,135, a total of $2,672,182, of which the sum of $983,141 re-

mained due to the employés; and as the company could not borrow money from outside parties with which to pay wages, it was compelled to pay its people in due-bills. The action of the Board of Control, which Reading joined only with a view of accelerating "the advent of fair prices," seems, unfortunately, to have also accelerated an increase of 19 8-10 cents per ton in the cost of coal. Still, on page 28, "the managers have no fear of the liability of the company to meet all of its cash fixed charges." On pages 29 and 30 a partial list of securities, said to be in the possession of the company and available for the purpose of paying the floating debt, &c., is given. Their value is put at $5,059,050, and they are said to pay an annual income of $339,208. There are twenty of these so-called securities; but unfortunately for the stability of the income to be derived from them, sixteen of the companies issuing them are leased by Reading, and their ability to pay the income depends altogether upon the ability of Reading to pay them. It will be seen that the managers do not say that they earn an annual income, but that they pay it. Whether this statement by the managers is entirely ingenuous or not is left to our readers to determine.

For the year 1879 the loss on the business was for the railroad company, without providing for sinking funds, $1,063,421, and for the coal and iron company, $1,754,436; total of $2,817,857. "In view of the greatly improved condition of business, the managers (page 19) have not hesitated to increase the floating debt" from $6,419,003 in November, 1878, to $9,152,909 in November, 1879. "If the option of taking the $5,000,000 bonds is exercised it will reduce the floating debt to about $4,500,000, and while there can be but little doubt that the profits of the year 1880 will be sufficient to pay off this balance, it is also confidently believed that the increased earning power and improved credit of the

company will, long before the expiration of the year enable the managers to fund the floating debt," &c. This was published on January 12th, 1880, and in the month of May following the companies passed into the hands of receivers. On page 31, report for 1879, the prediction is made that "all the coal that can be mined and transported will be wanted." The result was that in November, 1880, instead of beginning the winter season with empty wharves, Reading had about one hundred and twenty thousand tons stored at Richmond, and Mr. Gowen was offering the other companies an allowance of five per cent. on the output if they would consent to mine on half time for the winter! Any comment on such matters is, of course, superfluous.

One more specimen is given simply as a fitting capstone to a monument of unequaled folly (page 33): "As the average price of coal at tidewater for 1880 will undoubtedly be one dollar and fifty cents per ton higher than it was in 1879, as the railroad company will move about nine million tons, and as the increase of merchandise and passenger business may be relied on to cover the increased expense of working the road, the net profits of the company, after payment of all charges, except interest, may be expected to be :—

For the railroad company..........................	$8,700,000
For the coal and iron company..................	2,500,000
	$11,200,000
Deduct fixed charges and full sinking fund, say..	7,000,000
	$4,200,000

—equal to twelve per cent. on the share capital of the company." The result was that instead of $11,200,000 the companies earned $5,361,373, something less than one-half the amount, and fell short of paying the fixed charges by over $1,500,000.

It may be asked why, in the face of such facts, does the stock continue to sell at over fifty per cent. of its par value. The answer is a simple one :—

First.—Many of the present stockholders are altogether misled by the past reports of the management, and so hold their stock hoping for better times.

Second.—A powerful money clique has bought largely of the stock at lower prices, and are able to maintain the present prices until it has gradually sold out. But the recently published report of Mr. Harris on the value of the coal lands will probably open the eyes of both these classes to some very disagreeable facts.

There are several reasons which may account for the final catastrophe in Reading's financial affairs having been so long averted. Few if any of the stockholders would take the trouble to go back and read the eleven reports of the present administration consecutively, and thus obtain a connected history of its doings or misdoings. The author of the reports—a good advocate, but not a business man—possesses an unusual ability to convince others of the correctness of his views, even in the face of the plainest evidence of his previous incapacity. A notable proof of this may be seen in his success in obtaining in June, 1877, from a meeting of London *bondholders*, proverbial for their shrewdness, a forbearance of more than $8,000,000 in the payment of accruing interest, which constituted in effect a loan to that extent, even whilst it was in evidence before the meeting, that the company had been guilty of paying unearned dividends to its *stockholders*. This concession was distributed over a period of six years in the following proportions :—

1877..........	$ 923,707 50	1880..........	$1,585,875 00
1878..........	1,881,165 00	1881..........	1,256,835 00
1879..........	1,881,165 00	1882..........	628,417 50

The greatest amount of relief was obtained in the years 1878 and 1879, and yet the company failed in 1880.

There were two companies, the operations of one of which were not published at all until 1876, although it was incorporated in 1871. This company—the coal and iron company—became, after the purchase of the coal lands, by far the most important part of the stockholders' property, which will readily appear when it is understood that on November 30th, 1870, the bonded debt of the railroad company was only $13,841,877.22, whilst on the 30th of November, 1879, it had increased to $77,924,-761.04, besides the debt of the coal and iron company, $15,324,898.51, and a floating debt of say $13,000,000, making a total of $106,249,659.52.

This increase was owing almost entirely to the purchase of coal lands. They were bought on credit, and, excepting the $15,324,898 noted above, were paid for by means of the issue of the railroad company's bonds. When the yearly balance-sheets of the coal and iron company began to be published, it appeared from them that its indebtedness was chiefly to the railroad company, and not to the public, so that Mr. Gowen could say with literal truth, as he did on page 31, report of January, 1877, that its annual interest charge due to the public was only $989,575. But it really owed at that time to the railroad company, for money advanced, $48,718,006.51; and unless it could pay the interest on this amount the railroad company, of course, would be so far deficient in ability to pay the interest on its bonds issued to pay for the coal lands. In short, from the beginning of the purchase of the coal lands the railroad company had, to the already sufficient burden of taking care of itself and its stockholders, superimposed the task of providing for interest on the cost of an unproductive investment.

There appears to be a certain adroitness, not to say duplicity, in the method of presenting the state of the

accounts in the annual reports that might easily mislead the stockholders. For instance, on page 31, report of January, 1877, we read first that the railroad company holds the large interest of $48,718,006.51 in the coal and iron company; but nothing is said of the fact that the latter company is unable to pay the first dollar of interest on this large sum. Next we find that "as the great bulk of the indebtedness of the coal and iron company is to the railroad company, and as in the absence of any profit to justify it no interest need be paid upon it, the only annual charge which the coal and iron company must bear at all times is the interest due to the public." A stockholder unskilled in reading between the lines of an annual railroad report would hardly learn from these statements that his substance, if not already consumed, was fast being devoured by the elder of the horse-leech's twin daughters—interest.

We propose to show, from the best accessible information, what is the present condition of the twin companies from a business point of view. But that parties in interest may have the opportunity of judging of the dire change which has taken place in the condition of their property, a condensed balance-sheet of the railroad company, as of November 30th, 1869, is here first presented:—

Assets deemed good, consisting of railroad property, real estate, stocks and bonds, bills receivable, materials and cash................................		$39,100,976 97
Deduct liabilities--bonded debt....................	$7,819,592 13	
Capital stock...........	29,023,100 28	
		36,842,692 41
Surplus or reserved fund................		$2,258,284 56

This surplus remained to the stockholders after paying a dividend of 10 per cent. on the year 1869.

The statements of the Receivers, as of the 24th of May, 1880, gave the liabilities as follows:—

RAILROAD COMPANY.

Bonds and other debts	$91,666,174 96	
Capital stock.................	34,278,175 28	
		$125,944,350 24

COAL AND IRON COMPANY.

Total indebtedness to the public		18,657,348 12
Total liabilities........................		$144,601,698 36

To meet the above we find the following assets stated in the respective balance-sheets of the companies as of the 30th of November, 1879, and it is reasonable to suppose that their amount of value has not been increased since that date.

RAILROAD COMPANY.

Capital accounts......	$101,283,530 25	
Deduct coal and iron company, included in capital accounts, stated below	47,737,965 53	
	$53,545,564 72	
Cash, materials, stocks and bonds and debts due to the company	17,362,738 83	
		$70,908,303 55

COAL AND IRON COMPAMY.

Capital accounts........	$59,699,799 45	
Other assets............	3,893,171 27	
		63,502,970 72
Carried forward,		$134,501,274 27

Brought forward,		$134,501,274 27
Coal lands valued in above estimated at	$54,653,434 01	
But valued by Mr. Harris at..............	31,197,484 00	
Deduct the difference......................		23,455,950 01
		$111,045.324 26

RECAPITULATION.

Liabilities as above	$144,601,698 36
Assets as above..............................	111,045,324 26
Deficit....................................	$33,556,374 10

The above figures are taken from the respective statements of the receivers, the companies, and Mr. Harris, a mining engineer employed by the receivers to value the estate. From them the stockholders will see that the present administration has, in ten brief years, succeeded in effectually wiping out the capital stock of the Philadelphia and Reading Railroad Company.

Mr. Harris has performed the task of valuing the coal property with impartiality, but with an evident desire to do full justice to the corporation with which he was formerly connected. His rule was the only practicable one in the case, since the whole question is essentially one of accruing interest and the ability to pay it. But there are two serious objections to Mr. Harris' conclusions. First, it is by no means certain that there will continue to be the increased demand for anthracite which he assumes, and, second, if there be such demand, it will in no wise change the relative position of Reading to her six great competitors in the trade. Reading has a millstone of debt around its neck which the others have not, and it is to the removal of this that the first efforts should be directed. *Hic labor, hoc opus est.*

The following communication is from a mining engineer thoroughly conversant with the subject.

Financial editor of the Record:

While it is possible that Mr. Gowen may have some reason for his indignation, as expressed in his letter to Mr. Thomas Wilde Powell of the twelfth ultimo, there is nevertheless some explanation needed of the purchase of the Tamaqua property by the Reading Coal and Iron Company. As far as it goes Mr. Powell's statement is correct. That he did not go further may probably be accounted for from the fact that all the circumstances are known to but few. I will state them briefly:—A syndicate purchased the Tamaqua lands for $650,000, a mortgage being given for $600,000. After spending some $60,000 the gentlemen composing the syndicate offered to the Little Schuylkill Company to sacrifice the cash paid on the purchase, as well as their outlay, if the company would release them from their obligations. This offer was declined. An offer was then made to Mr. Gowen, but he thought that if these gentlemen, some of whom were experienced coal operators, could make nothing of the land it would not be judicious on his part to go into such a speculation, and he so signified to the would-be vendors. Nevertheless, from some unaccountable reason he was afterward induced to make the purchase. The following figures will exhibit the profit made by some one on this transaction:—

Paid by syndicate for Tamaqua lands............	$650,000
Outlay in developments, say...........................	75,000
For Tuscarora lands..	200,000
Interest, say..	150,000
	$1,075,000

Deduct this sum from that paid by the coal and iron company, $2,250,000, and we have a clear gain by some one of $1,175,000—or more than one per cent. But this was not all. Reliable parties had a lease, and were shipping coal from the property; yet the company was not satisfied till this lease had been surrendered to it at a cost of $75,000. Now, we must accept one horn of the dilemma—either Mr. Gowen greatly erred in declining the property at the first offer, or he made a graver mistake in subsequently paying more than double.

ANTHRAX.

TAMAQUA, December 14th, 1880.

Financial Editor of the Record:

The *Miners' Journal* of the 31st ult. has an article, evidently written by the coal editor (who is an employé of the Reading Company), criticising and taking exception to the estimate of Mr. Harris of the probable yield of coal veins on the lands of the Reading Coal and Iron Company, because, while the veins worked by this company are set down as yielding 24 per cent., those of the Lehigh region have been demonstrated to yield 34.6 per cent. As evidence that Mr. Harris has underestimated the Schuylkill lands, the *Journal* refers to the condition of the Mammoth vein in the Mahanoy and Shenandoah valleys, citing especially the "Gilberton," "William Penn," "Lawrence," and "Koh-i-noor" collieries; but it does not explain to the general public that none of these mines are on the company's property. And I may here state that in no part of their lands has this vein been proved in as good condition as at the localities named.

So far as the anthracite region is concerned, or that portion of it where the *Journal* circulates, few persons pay heed to its comments on the coal trade, or any other subject; but it is well that the general public should appreciate at their proper value the statements of that *veracious* (?) journal. Before it became necessary to bolster up the Reading Company the question of the yield of coal veins had been freely discussed, and there was comparatively little difference in the results arrived at. In 1876 a paper was read before the Institute of Mining Engineers on "Anthracite Coal Mining," by Mr. J. Price Wetherill, the present mining engineer of the coal and iron company, and in the course of a discussion on the various methods of working, Mr. Rothwell said that, calculating the yield of a large area in the Lehigh region, he could not discover that the company got over *30 per cent.* of the coal in the veins. Mr. E. B. Coxe, after a close calculation, estimated the yield of a certain area at twenty-eight per cent. and thought that from twenty-eight to thirty per cent. was as high as the average mines on the Mammoth Vein yielded. Later, in the Mine Inspector's report for 1879, Mr. Gay, the inspector for this district, says on the subject of yield:—"Estimates have also been given of the amount of coal recovered, by different authorities, placing it at from twenty-five to fifty per cent.; thus varying one hundred per cent. from my estimate. I am inclined to think the first or smaller percentage the nearer correct, but that is *too large.*" Mr. Gay then selects two collieries where the Mammoth Vein is worked, stating that both mines were as skillfully and economically managed as any in the district, and then gives these figures:—

Stanton Colliery—Total amount recovered, in tons, 691,207; lost in mining and preparation, 3,292,703.

Gilberton's Colliery (cited by the *Journal*)—Total amount recovered, in tons, 1,244,796; lost in mining and preparation, 3,808,244.

Now it must be remembered that while Mr. Harris gives a general average, which agrees with the observation of Messrs. Rothwell and Coxe, Mr. Gay's estimate is based on actual workings in the locality referred to by the *Miner's Journal*. Judging from these estimates, I think it must be admitted that if Mr. Harris has erred, it is in *over-estimating* the yield on the Reading lands. Assuredly the *ipse dixit* of the writer in the *Journal* can not be set up as authority over the experience of the gentlemen named.

MINER.

One hundred and forty-four million dollars is a very large sum of money for any corporate enterprise in this country to owe, but this is the amount, in round numbers, stated by Mr. Gowen on page 3 of his pamphlet of December 6th, 1880, to be due at that date by the Reading dual company to the public and its shareholders. There can be no reason to suppose that the amount is overstated.

The all-important question to the public and the bond and share holders is, What does the Reading possess in the shape of assets wherewith to meet this indebtedness?

Mr. Gowen states, on page 2, that the company has assets which, in his judgment, are worth $161,000,000, which will suffice to pay the liabilities and leave a surplus of some $17,000,000. If Mr. Gowen's judgment in business matters had been good during the past ten years, there would have been no such corporation in existence as the coal and iron company, nor would the railroad company have now been in the hands of receivers. It is desirable, therefore, to see what these assets are composed of, and the manner in which Mr. Gowen's valuation of them is arrived at.

They consist of ten items, representing different kinds of property, valued by Mr. Gowen as follows:—

Railroad	$31,498,200
Railroad company's real estate	14,316,994
Engines and cars	11,534,711
Vessels, materials, &c.	6,233,397
Stocks and bonds	7,346,000
Debts receivable	3,911,768
Coal lands	75,600,000
Timber and iron lands	2,200,000
Leases	7,500,000
Other assets	1,117,000
	$161,258,070

On page 4, Mr. Gowen states frankly that "the liabilities are from the balance-sheets of October 31st, and the statements of values are from careful appraisements by others, except the two items of coal lands and leased lines, which are my own estimate, but really far below actual values." It will at once occur to the ordinary business mind that if the liabilities are derived from the balance-sheets, the assets, or "values," should be obtained from the same source; and that if the company really had assets in excess of its liabilities, except those to its stockholders, to the extent of $50,000,000, as Mr. Gowen, on page 4, says it has, it should not have been a difficult task to keep it out of the hands of receivers. But let us see what the balance-sheets of October 31st say on the subject.

The railroad company's assets are comprised in two items:—

Railroad and other property		$101,283,530
Cash, debts receivable, &c		17,362,738
		$118,646,268
From which are to be deducted, because shown on the coal and iron company's accounts —		
Coal and iron company stock	$8,000,000	
Coal and iron company bonds and mortgages	29,737,965	
Coal and iron company bonds and mortgages	10,000,000	
Coal and iron company open debt	5,177,919	
		52,915,884
Total railroad company's assets		$65,730,384

The assets of the coal and iron company are also contained in two items —

Coal lands and other property	$59,699,799
Cash, debts receivable, &c	3,893,111
Total coal and iron company's assets	$63,592,910

The total amount of the assets of both companies, it will be seen, is only $129,323,294, as shown by the balance-sheets of October 31st, 1880, as against Mr. Gowen's valuation of $161,000,000, made some thirty-six days later. But there is a concealed item in the case which makes the discrepancy still greater. In the cost of the coal lands on the balance-sheets is included for discount, commission, and loss, which added nothing to their intrinsic value, as an asset, the frightful sum of **$14,443,570.** If this sum be deducted from $129,323,294, the amount already given as assets by the balance-sheets, we shall have about $115,000,000 as against Mr. Gowen's

valuation of $161,000,000, a difference of $46,000,000 between what the coal and iron company's books and balance-sheets should have shown and Mr. Gowen's valuation.

Now, it will be observed that in the preceding statements there is nothing left to conjecture, or estimate, or appraisement. Everything consists of plain, hard facts and figures, taken from the company's books, which can not be denied or explained away.

It may be said, however, that the value of a railroad's assets consists less in their cost than in their earning power, and this is true. Prior to the purchase of the coal lands, and when Reading confined itself to its legitimate business of transportation, its earning power, as compared with its cost, was large, and its plant correspondingly valuable. But the coal lands speculation has changed all this, and its present earning power is out of all proportion small, as compared with the interest on the enormous debt which it finds itself called upon to pay. This interest, being in the nature of a fixed charge, must be satisfied before any dividends can accrue to the stockholders; and the consequence is that the road, instead of earning and paying handsome dividends as it once did, is now unable to meet its fixed charges. In other words, so far as dividends are concerned, its earning power is less than *nil.*

It is generally known that in the year 1877, the company obtained a relief from its bondholders in the way of deferred interest to the extent of about $8,000,000, and that this relief will cease with the year 1882. On page 6, Mr. Gowen admits, that if the earnings be no greater in 1883 than they have been in 1880, " there will be a deficiency of $1,871,530 for fixed charges," leaving dividends out of the question. He proceeds to show why the earnings of 1880, instead of being $11,200,000, as he informed his stockholders in the report of January,

1880, they might be expected to be, were only $5,361,-373, or less than one-half. He gives as one cause the "sudden collapse of the iron trade," and as another that "the expensive system of working all collieries three days out of the week (instead of working the best collieries full time, and letting the worst remain idle), which was adopted as the only plan by which 'harmony in the trade' could be obtained, added at least thirty cents per ton to the cost of mining coal." As the collapse in the iron trade was only a natural reaction from an unhealthy excitement, the circumstance can hardly afford much encouragement to stockholders for the future. But the second reason deserves more attention. Does Mr. Gowen realize what "harmony in the trade" implies to Reading? It means simply that the managers of the five great rival companies comprehend the situation fully, and will harmonize so long as it is to their pecuniary advantage to do so, but no longer. The phrase at the best is a contradiction in terms, but in the mouth of Mr. Gowen it is a burlesque. It signifies concession in some form, and concession means loss to Reading. For instance, in November last, in a published letter, Mr. Gowen expressed his willingness to concede an advantage of five per cent. to certain companies on a specified output, if they would consent to mine on half-time during the present winter. This is a concession to obtain "harmony in the trade."

The proposal to issue $150,000,000 five per cent. bonds with which to retire the existing liabilities of the company seems unworthy of serious discussion. The holders of the present senior securities, which bear six and one-half per cent. interest and have nearly thirty years to run, will certainly not listen to a request to exchange their $24,000,000 of bonds for the proposed five per cents., and their refusal, holding as they do the first lien on the property, may well deter others.

At present it is hard to see what can prevent a foreclosure of the property by the consolidated mortgage

creditors, as was more than hinted at in the second report of the Lord Cairns Committee. There are some $14,000,000 of dividend coal land bonds which, representing as they do nearly fifty per cent. of the value of the coal property according to Mr. Harris' estimate, may well put the holders of the consolidated bonds on the inquiry as to the ultimate value of their securities.

In our view of the Gowen administration of the affairs of the Reading Railroad Company, we have adverted in general terms to the payment of dividends by the company which the management must have known had not been earned. We now feel that our duty as a public journalist demands that we give more time and space to the discussion and elucidation of this grave matter. There is nothing, in our estimation, in the entire case, of greater importance, and it is unquestionably of public interest as affecting corporations generally.

We all understand what the word dividend means in the business acceptance of the term as applied to solvent companies. There can be no doubt that it signifies the *share of the profit* belonging to each member, in proportion to his share of the total capital. There is no question, either, that the books and accounts of the Reading Companies have at all times been kept by competent accountants. Their general form and method indicate this, and a special proof of it appears in the note made by the bookkeeper to the transfer entries complained of by the investigating committee of 1876, that the entries were made by " direction of President Gowen." It can not be disputed, either, that the amount of dividends, and taxes on same, paid by the railroad company to the stockholders in the years 1871 to 1875, both inclusive, exceeded the profits of both companies for the same period, including the balance of the reserve fund brought over from the year 1870 (which was $201,914.57) by the sum of $15,692,583.95. This is proven by the attesting signatures, now before us, of " J. B. White, Comptroller Philadelphia and Reading Railroad Company," and "Albert

Foster, Secretary Philadelphia and Reading Coal and Iron Company," under date of November 20th, 1876.

These facts being established, the degree of culpability attaching to the individual members of the management is to be measured by the amount of his personal knowledge of the state of the accounts of both companies during the term now under consideration. Whatever may have been the position of the other managers, there is no doubt as to where the president stood. He has not only admitted his full knowledge of the fact that interest was charged by the railroad company to the coal and iron company, but on page 33 of report of January, 1879, he states the total amount thus charged for the years 1871 to 1875, both inclusive, as $6,940,537.14, and avers that it was "an entirely proper charge against capital pending the purchase and the devolopment of the latter company."

The interest charges began to be made in 1871 and ceased in 1875. No charge was made in 1876, because the investigating committee of that year had completed its task before the close of the fiscal year and had discovered the true state of the case and rendered further deception of this kind impossible. It seems pertinent to notice here a characteristic statement to be found on page 28 of the report of January 8th, 1877, which reads as follows :—" But, in addition to the interest upon the cost of the property, the entire loss of the coal and iron company from the period of its creation until December 31st, 1875, was but $297,443.59, and this amount, together with the interest upon the cost of the lands up to December 31st, 1875, and the commissions and discounts upon the loans issued by the railroad company to secure the money to purchase them, has been charged to the capital account of the coal lands on the books of the coal and iron company." Mr. Gowen may not understand double-entry book-keeping; he may not be a skillful accountant, and he may be unable to appreciate fully the accuracy of Mr. Harris' method of ascertaining

the present value of coal lands by means of an algebraic equation; but as a lawyer and orator he will comprehend the significance of the charge of "*suppressio veri*," and the moral turpitude implied by it. The figures $297,-443.59 in the last-quoted paragraph are obtained by him from Statement F of the suppressed report of the investigating committee, which, to explain our charge against Mr. Gowen, we give in full.

STATEMENT F (AMENDED).

PHILADELPHIA AND READING COAL AND IRON COMPANY.—STATEMENT OF RECEIPTS AND EXPENSES, 1871 TO 1875.

Gross receipts...............		$25,826,647 92	
Less rents from tenants	$2,243,104 98		
Less bad debts......	62,903 77		
		2,180,201 21	
			$23,646,446 71
Gross expenses.............		$26,124,091 51	
Less *pro rata* of expenses of management of land, one-half of $854,018.44.		427,009 22	
			25,697,082 29
Net loss on business, exclusive of rental from leased collieries.........................			$2,050,635 58
Rentals from tenants as above......................		$2,180,201 21	
Less *pro rata* expenses of management...............		427,009,22	
			1,753,191 99
			$297,443 59

[E. & O. Ex.]

(Signed) ALBERT FOSTER,
Secretary.

November 20th, 1876.

It will be seen here that the loss on the *business* of the coal and iron company was $2,050,635.58, but as they had rented a portion of their property, from which they received $1,753,199.99 in rentals, the loss of the *company* might be said, with literal truth, to be but $297,443.59 if the operating and renting were both taken into the accounts. But Mr. Gowen omits from his statement the figures representing the discount, commission and loss, which, instead of being charged, as they should have been, to the profit and loss account, were (presumably by his orders) carried to the cost of the coal lands account. This amount, furnished him in Statement A of the same report, was $14,443,570.34. It is an incredible sum, and, that there may be no suspicion of a misprint in the figures, we repeat the amount in words, namely, *fourteen millions four hundred and forty-three thousand five hundred and seventy dollars and thirty-four cents!* Now, we ask, why did Mr. Gowen, in giving certain figures from the suppressed report, omit all mention of all others? As the report was suppressed, and was not allowed to be spread upon the minutes, why did Mr. Gowen dare to quote from it at all? The sum of $297,433.59, which he here admits to be a loss of the company, forms a portion of the $14,443,570.34 which was charged to be the cost of the coal lands. Why does he mention a part of the sum and refrain from stating what the balance amounts to? We will try and answer these questions for him. Statement B of the suppressed report, signed by J. B. White, Comptroller, and Albert Foster, Secretary, heretofore mentioned, states that the amount paid out for dividends from 1871 to 1875, both years inclusive, was $18,040,264.32, while the earnings of both companies were only $2,347,680.37, and that consequently there was a deficit of $15,692,583.95.

This, as we read the case, was the cause of Mr. Gowen's silence, and our readers need scarcely be in-

formed that this deficit consisted chiefly of the $14,443,570.34, which, instead of appearing as the debit of the profit and loss account of the coal and iron company, was concealed in the coal lands account. Had Mr. Gowen ventured to name the sum that had been charged to the coal lands, nothing could have prevented an *eclaircissement* at the time; but by giving the comparatively small sum he stated he diverted suspicion

But to return to the more specific analysis or elucidation of the reports containing the (as we believe them to be) unfounded and fraudulent charges of interest. The coal and iron company having been organized in 1871, we will begin with the report for the year 1872. On page 17 we find the sum of $846,478.47 added to the receipts of the company as the "balance of interest account," and in it are embraced "receipts from the Philadelphia and Reading Coal and Iron Company." If this be a lie, it is, at all events, "the lie with circumstance," and we will examine it. Here, *verbatim*, is the language of the report:—"Balance of interest account, including interest and dividends on stocks and bonds held by the company, receipts from the Philadelphia and Reading Coal and Iron Company, profit on steam colliers, &c., first deducting drawbacks on traffic of 1871, and loss upon the business of the Schuylkill and Susquehanna Canal for 1872, $846,478.47;" and we beg our readers to compare it with the facts set forth in the following statements of figures.

The balance of interest account, $846,478.47 is manufactured by the following process:—

DR.

Balance, profit and loss	$5,663 68
Loss, Schuylkill Canal	351,265 52
Loss, Susquehanna Canal	116,490 08
Loss, Richmond shipping	30,511 76
Balance, interest account	4,373 06
	$507,804 10
Balance	846,478 47
	$1,354,282 57

CR.

Profit, colliers and barges	$105,279 04
Interest charged branch roads	124,817 97
Interest charged coal company	1,124,185 56
	$1,354,282 57
Credit balance	$846,478 47

Here is to be seen the first step taken on that road which is said to be paved with good intentions. Our readers will observe on the credit side of the statement two items of interest "charged" the branch roads and the coal company respectively, and aggregating $1,249,003.53. This sum forms a component part of the $3,593,391.40 distributed in 1872 by the railroad company as dividends among its shareholders; and as it was never earned, and was in no sense a profit, and was not a "receipt" of cash, but only a book-keeping charge, the distribution, in our opinion, was a fraud. The "dividend of 1872" is stated on page 39 of the report of that year at $2,906,847.23; but if the fraudulent interest charge were eliminated it would only be $1,657,843.70 wherewith to pay the 10 per cent. dividend of $3,592,391.40.

The following would have been our version of the same story:—

DR.

Sundries as in preceding statement.........	$507,804 10
Loss in operating coal company,...........	135,166 52
Interest paid in cash to the public by the coal company..................................	1,042,719 10
	$1,685,689 72
Debtor balance..........................	$1,580,410 68

CR.

Profit on colliers and barges................	$105,279 04
Balance.....	1,580,410 68
	$1,685,689 72

The sum of the difference between Mr. Gowen's way of narrating the facts pertaining to the credit of $846,-478.47—found on page 17 of his report for the year 1872—and our own, when crystallized into figures, amounts to $2,426,889.15.

To this we append a statement of what befell the coal and iron company in 1872:—

LOSS OF COAL AND IRON COMPANY IN 1872.

Loss in mining, &c...........................	$135,166 52
Interest paid in cash to the public, discount, &c..	1,042,719 10
Interest charged by railroad company.....	1,124,185 56
Total loss, charged to cost of lands..	$2,302,071 18

To our analytic examination given above, we add a synthetic statement of what was really the result of the year's operation to *both* companies:—

Receipts over cost of working railroad, as per report, page 17..............		$4,061,496 43
Profit on business of colliers and barges...........		105,279 04
Taxes charged in 1871, but not paid....................		57,592 73
		$4,224,368 20
From which deduct—		
Balance profit and loss, debts and assets	$5,663 68	
Loss Schuylkill Canal.....	351,265 52	
Loss Susquehanna Canal..	116,490 08	
Loss Richmond shipping,	30,011 76	
Balance interest account...	4,373 06	
		507,804 10
Net profits of railroad company.......................		$3,716,564 10
From which deduct—		
Loss in working coal company.......................		135,166 52
Net profits applicable to interest and dividends...		$3,581,397 58
From which deduct interest on bonds, sinking fund, taxes, renewal fund railroad company.........	$2,001,127 67	
Interest and discount paid the public by coal and iron company.............	1,042,719 10	
		3,043,846 77
Net profits applicable to dividends.................		$537,550 81
Dividends and taxes on same actually paid......		3,593,391 40
Amount of unearned dividends fraudulently distributed among shareholders in the year 1872		$3,055.840 59

We wonder how long the average stockholder might be engaged upon the study of Mr. Gowen's report before reaching the conclusion here arrived at.

Before passing to an examination of the report of 1873 and following years, we have a word to say regarding the motive for charging the interest to the cost of the coal lands on the books of the coal and iron company. Our readers will bear in mind that there were two separate organizations—the Reading Railroad Company and what Mr. Gowen terms, at page seventeen of report of January 8th, 1872, "an auxilliary company, known as the Philadelphia and Reading Coal and Iron Company, of which the Philadelphia and Reading Railroad Company is the only stockholder."

There were also, of course, two separate sets of books. The coal and iron company was organized in December, 1871, and it became apparent in 1872 that the railroad company could not continue to pay dividends and the interest on the bonds it had issued to pay for the lands. The plan of charging interest to its other self, the coal and iron company, was therefore resorted to, and the amount thus charged, as well as a similar charge to the branch roads, was carried to the dividend fund. Now, if the coal company had earned the money wherewith to pay the interest there could have been no objection to the charge. But it did not, and the management knew it, and this is why we brand the transaction as a fraud. Fraud No. 1 we will call it. But the charging of interest, right or wrongfully on the books of the railroad company to the coal and iron cnmpany has nothing whatever to do with the disposition of the matter on the books of the latter company. Had this company been solvent the interest would, of course, have been charged on its books to the profit and loss account, as it has been ever since the discovery by the investigating committee of 1876; but it was not solvent, and it was determined to conceal the insolvency by charging the amount to the

cost of the land. This we call fraud No. 2, made necessary by fraud No. 1.

> "Oh! what a tangled web we weave
> When first we practice to deceive."

It was the obvious duty of the managers to have published in 1872, and every year thereafter, a balance-sheet of the condition of the coal and iron company, but this was evaded until the discovery of the investigating committee of 1876 compelled its performance. Had it been truthfully done, the balance-sheet of 1879, the last one published, would have shown a debtor balance to the profit and loss account of more than $21,000,000, instead of $6,848,363.39, as it now does. Here, then, is the motive.

Passing now to the report of 1873, we find on page 17, credited as "balance of interest account," the sum of $957,930.99. This is manufactured in precisely the same manner as in 1872, the only difference being in the amounts. For the satisfaction of the public we give the figures in detail:—

Dr.

United States taxes of prior years	$205,592 01
Loss Schuylkill Canal	61,605 22
Loss Susquehanna Canal	257,790 48
Loss on coal barges	5,020 52
Interest convertible loan	131,961 80
Interest floating debt	128,840 53
	$790,810 56
Balance	957,930 99
	$1,748,741 55

Cr.

Balance profit and loss	$8,484 45
Interest charged branch roads	177,878 95
Interest charged coal lands	1,562,378 15
	$1,748,741 55
Credit balance	$957,930 99

Here is the truth as contrasted with the preceding:-

DR.

Sundries as above	$790,810 56
Loss of mining company	328,647 43
Interest paid and discount	1,439,615 76
	$2,559,073 75
Debtor balance	$2,550,589 30

CR

Profit and loss as above	8,484 45
Balance	2,550,589 30
	$2,559,073 74

And here is the result of the coal lands speculation for the year 1873:—

Loss in mining	$328,647 43
Interest paid to the public, &c	1,439,615 76
Interest charged by railroad company	1,562,378 15
Loss charged to cost of lands	$3,330,641 34

Passing to the year 1874, we find on page 17 of the report the sum of $1,280,859.50 credited as "balance of interest account." This is produced in the following manner:—

DR.

Balance profit and loss	$64,932 82
Loss Schuylkill Canal	216,927 94
Loss Susquehanna Canal	161,019 13
Loss colliers and barges	42,713 69
Interest on convertible loan	173,053 35
Dr. balance interest account	240,689 09
Balance	1,280,589 50
	$2,180,195 52

Cr.

Catawissa Railroad telegraph................	$3,580 00
Catawissa excess material.....	12,217 07
Steam-colliers do................................	8,690 83
East Pennsylvania R. R. construction......	6,875 56
Catawissa Railroad construction............	1,479 87
	$32,843 33
Interest charged branch roads.......	135,782 55
Interest charged coal and iron company...	2,011,569 64
	$2,180,195 50
Credit balance	$1,280,859 50

If the fictitious interest charges are taken from the credit side of the above statement there would be a debtor balance of $866,492.69, instead of the credit balance as shown, and this would be the true state of the case.

The coal company showed a loss for the year as follows:—

Interest paid the public, &c....................	$2,262,812 01
Interest charged by the railroad company.	2,011,569 64
	4,274,381 65
Receipts over cost of mining.................	504,221 74
Loss charged to coal lands	$3,770,159 91

The following statement will show the combined profits of both companies for 1874 and the amount overpaid in dividends:—

Receipts over cost of working railroad		$5,720,204 82
State taxes refunded		70,810 33
Catawissa telegraph, &c., as in preceding statement		32,843 33
		$5,823,858 48
From which deduct—		
Profit and loss debts and assets	$64,932 82	
Loss Schuylkill Canal	216,927 94	
Loss Susquehanna Canal	161,019 13	
Loss colliers and barges	42,713 69	
Interest convertible loan	173,053 35	
Interest floating debt	240,689 09	
		899,336 02
Net profits railroad company		$4,924,522 46
Net profits coal and iron company		504,221 74
Profits applicable to interest and dividends		$5,428,744 20
Interest on bonds railroad company	$3,126,502 00	
Interest on bonds coal company	2,262,812 01	
		5,389,314 01
Net profits applicable to dividends		$39,430 19
Dividends actually paid		3,701,601 60
Dividends fraudulently distributed		$3,662,171 41

In the following year (1875) we find by page 15 of the report that the manufactured item of "balance of interest account" has reached the handsome sum of $2,269,-330.63. This amount is of so respectable proportions and the method of producing it so ingenious that, in deference to the inventive ability displayed in the matter, we

must withdraw the term "manufactured" and substitute that of fabricated. This year the company sold to its own stockholders for $500,000 a tract of lands that only cost $106,267.60, and not only cleared by the transaction $393,732.40, but, what was much better for the stockholders, actually paid it to them in dividends. To be sure the company borrowed the money to pay the dividends, and paid over $500,000 as discount on the bonds sold for the purpose; but it is no part of a railroad manager's business to care for bondholders; their first duty is to the shareholders.

The following statement gives the particulars of this brilliant feat of financiering:—

Interest charged to coal company by railroad company			$2,102,509 71
Interest charged to branch road by railroad company			175,019 03
So-called profit on sale of Schuylkill and Susquehanna lands by railroad company to the coal and iron company			393,732 40
			$2,671,261 14
From which deduct loss on Schuylkill Canal		$125,716 45	
Loss on Susquehanna Canal		172,270 09	
Loss on coal barges		64,559 10	
Taxes of previous year, &c.		41,241 23	
Interest floating debt		184,542 96	
		$588,329 83	
Less profit Richmond shipping	$64,914 25		
Interest and dividends on stocks and bonds	96,079 40		
Sundry items	25,405 67		
		186,399 32	401,930 51
Fabricated item of interest			$2,269,330 63

The loss of the coal company was as follows:—

Loss in mining..............................	$545,728 04
Interest on bonds..............................	2,135,886 56
Interest charged by railroad as above.....	2,102,509 71
	$4,784,124 31

The result of the year's business to both companies will be seen by the following statement:—

Receipts over cost of working railroad.....		$4,530,768 19
Profit on steam-colliers..............................		72,559 86
		$4,603,328 08
From which deduct losses on canals, &c., as per preceding statement..................		401,930 51
Net profit of railroad company..............		$4,201,397 57
Deduct loss of coal company in mining...		545,728 04
Net profits of both companies................		$3,655,669 53
From which deduct interest and sinking funds railroad company...	$4,007,720 68	
Do. coal company............	2,135,886 56	
		6,143,607 24
Deficit..		$2,487,937 71

There are occasions, as our readers very well know, when words fail to express what the writer or speaker wishes to convey. Here, however, is an instance where figures fail us, and we must fall back on written language. It will not do to add in figures to the above deficit the dividends paid by the company in 1875, and say that the aggregate of upward of $7,000,000 was fraudulently distributed; but what we do say is that the managers in 1875, when the companies fell short of meeting their fixed charges by the sum of $2,487,937.71, did actually pay to the stockholders dividends to the amount of $3,736,255.68 and borrowed $10,000,000, the prospectus for the loan being issued in London, January 1st, 1876.

We have been at some pains to place before our readers the particulars relating to the improper charges of interest by the Reading Railroad Company to the coal and iron company, because it was by means of these that the management succeeded, for so long a period, in concealing the insolvency of the concern. In presenting our various statements, comparing the false tables of earnings as given in the company's reports for 1872, 1873, 1874, and 1875 with the true results as stated by us, we see that we have omitted to say that our statements for these years have been prepared in precisely the same manner as the accounts have been made up for the subsequent years by the management. The importance of calling attention now to this circumstance consists in the fact that the investigation of the Smith committee, which reported in November, 1876, prior to the closing of the books for that year, but whose report was suppressed and refused admittance to the minutes of the company, made it absolutely impossible for the management any longer to deceive the bond-buying public by false reports, and we have had consequently true forms of figure statements for 1876 and thereafter.

The investigation of the committee compelled the publication of the first report of the coal and iron company, and, so far as can now be seen, it is really impossible to say to what height the debt might not have been raised, nor to what depth the company might not have been sunk, had it not been for the fearless manner in which the committee discharged its duties. To realize this, we ask our readers to turn to page 18 of Mr. Gowen's pamphlet of December 6th, 1880, and there read his assertion that the $140,000,000 of bonds he proposes to issue would be a first lien upon property worth,

According to the list of assets before given	$161,258,070 59
To which must be added for value of leased lines, securities purchased, say	50,000,000 00
Making a total of	$211,258,070 59

and then examine the figures given by us in our statement of 11th of January instant, taken from the published official reports of the receivers, the companies, and Mr. Harris, the mining engineer employed by the receivers to value the estate, which show the value of all the property of the two companies to be $111,045,324.26.

What are we to think or say of a person who can calmly put forth such a statement as this of Mr. Gowen's? Here an over-valuation of more than $100,000,000, deliberately prepared for the purpose of inducing foreign capitalists to buy bonds. This utter recklessness of assertion is characteristic of nearly everything that Mr. Gowen has written concerning the condition and prospects of the company. Witness, for example, his valuation of the Schuylkill and Susquehanna tract of coal lands, and his argument in support of it. There are of these lands in all forty-one thousand seven hundred and sixty-six acres, of which ten thousand five hundred acres contained coal, the balance being in timber. They were bought originally at a cost for the whole tract of $118,617.60, and were embraced in the purchase of the Schuylkill and Susquehanna Railroad and property, the cost of the whole being $561,743.75. In 1874, the lands alone were transferred to the coal and iron company, not, as they should have been, at their cost, but at a valuation of $500,000, the so-called profit being carried on the books of the railroad company to the dividend account and paid out in dividends to the stockholders, the money for that purpose being procured by the sale of bonds. Mr. Harris in his valuation calls these coal lands worth $81,416, and the timber lands $339,128, together $420,544. But Mr. Gowen asks us to believe

that what cost in 1861	$118,617 60
had grown to be worth in 1874	500,000 00
and that *one-fourth* of it is now worth, at $750 per acre	7,875,000 00

His argument is that "it is certain that an estate of coal lands capable, at but thirty cents per ton for royalty, of producing for one hundred and five years an annual royalty of $120,000, will probably realize at public sale a sum nearer $1,500,000" (not $7,875,000, however), than $81, 416, and is apt to find a ready purchaser among capitalists and coal operators, who could within two years realize the expected annual revenue without the danger of the value of their property being overshadowed by an imaginary book-keeping charge of eight per cent. compound interest during years of non-production." But this is worse than reckless. It is to the last degree disingenuous and misleading. Mr. Gowen fails to state that the present annual yield of the tract is only eighty-four hundred and eighty-seven tons of coal, its present yearly revenue only $2546, and that the one hundred and five years of which he speaks only begin at 1930, and end with the year 2035, this deferred date being made necessary and unavoidable by economic considerations relating to the development of other portions of the estate at an earlier period.

This is a very different matter from that of "coal operators who could within two years realize the expected annual revenue." And on top of this Mr. Gowen has the effrontery to speak of "the value of the property being overshadowed by an imaginary book-keeping charge of eight per cent. compound interest during years of non-production." Will he tell us what has brought this once rich and respected corporation, that in an evil hour placed him in charge of its affairs, to its present deplorable condition, except it be the charges of "interest during years of non-production?" We have a notion that the coupons attached to the bonds issued to pay for the coal lands are to be viewed as concrete facts and not as "imaginary" creations. Mr. Harris says of this Schuylkill and Susquehanna property:—"The developments which have been

made are not such as to lead to an early opening of mines within its limits, the experiments of working collieries having resulted thus far in failures."

Speaking generally of the development of the estate, at page 19 of his able and exhaustive report, Mr. Harris observes:—"The estimate of the company's tonnage is based on a careful examination of its property, locating the proposed collieries where they will be best calculated to develop it economically, and arranging the dates of opening,' so that the cost of improvements shall not bear too heavily at any time, nor the tonnage increase more rapidly than a market can be found for it. This estimate was made independently by the company's engineers, and as it shows that their estate will ship a generally increasing percentage of the Schuylkill region, the two estimates may be considered to fit well together."

Our readers, from this, will conclude with us that Mr. Harris not only understood his task, but did more than justice to the company in its performance. As to the disposal of the coal lands, the company is in this extraordinary dilemma—it can not hold them, because it can not pay the interest on their cost; and it dare not sell them, for fear of bringing new competitors into the market.

It is not unusual to hear it stated by Mr. Gowen's supporters that he is a person of resource. The fact may be conceded; he is. His resources, indeed, appear to be endless. Use can not wither nor practice stale their infinite variety. Here is one of them:—Among the healthy provisions of the former Reading management was one that made it obligatory on the company to set aside out of each year's earnings a certain sum of money to provide for the repairs made necessary by the wear and tear of the road and equipment. This account was called the "Renewal Fund," and it was supplied by carrying to its credit annually a charge of a fixed rate per ton on all the

coal transported. The charge was originally three cents per ton, but this having been found to be insufficient, it was increased to five cents, including weight of cars.

It will be seen that the apparent net earnings for each year would be reduced by whatever sum this charge amounted to. In the report dated January 14th, 1878, "it is recommended that hereafter the fund shall be based entirely upon the actual tonnage moved, irrespective of the weight of the cars themselves." This means simply that the apparent net earnings shall be increased by the weight of the cars, and is one of the "resources" we have alluded to. It has an innocent look, but is not so guileless as it appears to be. Let us see what use has been made of the recommendation of the management. In the report just named, page 64, Statement F, we find:—

Total number of tons hauled one mile, including weight of cars, but exclusive of engine and tender	1,790,160,419
And on page 36 we find	
The renewal fund is credited with 5 cents per 100 tons, on tons transported one mile in 1876 and 1877	794,877,887
Making tons omitted	995,282,532

These tons omitted represent, presumably, the weight of the cars, which the management recommends should be left out, and the figures show that they equal fifty-six per cent. of the total duty performed, so that the empty car should equal in weight fifty-six per cent. of the loaded car. But it falls very far short of doing this.

The average weight of an eight-wheeled car is	6 tons
And its average load is	12 tons
Making weight of loaded car	18 tons

Of which the weight of the empty car is only thirty-three per cent., leaving a difference of twenty-three per cent., by which the apparent net earnings were swelled by the process of cooking.

We give also the figures for the two succeeding years -

1878, page 60, duty performed...............	1,565,109,439
1878, page 36, duty credited...................	680,247,047
Duty omitted, fifty-six per cent.........	884,862,392
1879, page 62, duty performed	2,101,344,256
1879, page 36, duty credited...................	908,821,403
Duty omitted, fifty-six per cent.........	1,192,522,853

Computing the matter in dollars and cents, we shall find the difference by which the apparent net earnings were increased in 1879 to be a serious sum, as follows :—

Duty performed in year ending November 30th, 1879. Report, page 62, \$2,101,344,256, at 5 cents..................	\$1,050,672 12
Deduct weight of cars, as per recommendation of committee, 33 per cent....	350,224 04
	\$700,448 08
Amount actually credited, page 36........	454,410 70
Cooked..	\$246,037 38

Assuming that Mr. Gowen is the real, as he is the putative, author of the measures of the company, we shall always be ready to maintain against all comers that he is a man of resource. Whether his resources are ultimately beneficial to the company or not is, we think, more than questionable. In all his struggles to reach solid gound, he seems only to plunge deeper into

the morass of difficulty and debt. His deferred scrip scheme of June, 1877, was an instance of this.

The practical result of the change in the renewal fund we are now discussing was to reduce the charge of 5 cents to $2\frac{80}{100}$ cents per one hundred tons, when he knew that the first rate of three cents had proved inadequate, and when the shabby condition of the buildings on the line was matter of public comment. Is it not time that the condition of the road should be made the subject of an independent examination, by order of the court, under whose protection the property has been placed, and reported on, as the coal estate has been done by Mr. Harris? In Mr. Gowen's new bond scheme it will be observed that not a syllable is spoken by him in relation to a provision for maintenance of roadway or renewal of equipment. He appears to think that the present locomotives and cars will last forever.

We have recently received a pamphlet copy of the proceedings at the London Cannon street meeting of 23d December last, when Mr. Gowen laid his plans before the English bond and share holders, and propose to comment upon it in a future issue.

The Cannon Street Hotel, London, G. B., has become classic ground by reason of its having been made the arena for the discussion of the affairs of "companies or undertakings in temporary distress," as Sir Henry W. Tyler, M. P., euphemistically put it on taking the chair at the Reading meeting on the 23d of December last. There was a meeting there also on June 6th, 1877, when Reading was "in temporary distress," at which Mr. Thomas Wilde Powell presided; but, as the temporary distress resolved itself into a permanent bankruptcy, Mr. Powell, very properly, did not occupy the chair on the last occasion. The purpose of the recent meeting was to give Mr. Gowen an opportumity to explain why his promises of June, 1877, had not been kept, and to place before

the English bond and share holders his new scheme for the issue of $34,000,000 of deferred bonds, and $150,-000,000 of five per cent. securities. Mr. Gowen, "who was received with cheers," began his address by admitting two mistakes of which he had been guilty. The first was that, after mature reflection and consideration, he had determined to raise the money for the purchase of the coal lands "by debt instead of open-share capital." We think that Mr. Gowen made a far greater mistake in venturing upon such a statement when he must have known that sooner or later it would reach the American public, who would be in a better position to judge of its truthfulness than a London audience could be. It was, we assert, an impossibility for the Reading Railroad Company to have bought in 1871 and 1872, fifty million dollars' worth of coal lands by the issue of stock of the "auxiliary company called the Philadelphia and Reading Coal and Iron Company, of which the Philadelphia and Reading Railroad Company is the only stockholder," without frustrating the alleged purpose for which the purchase was made, and we think Mr. Gowen must have known this when he made the statement of December 23d. Look at the facts: Mr. Gowen says that its "credit was practically unlimited." The company was then paying ten per cent. dividends, and had, of course, the credit with the public of doing so, but here was its veritable financial condition at that time.

Nov. 30th, 1870, balance reserve fund.......	$1,851,023 58
From which deduct—	
Dividend, with taxes on same, paid January, 1871	1,649,109 01
Balance reserve fund...........	$201,914 57

Now here is every dollar that the Philadelphia and Reading Railroad Company could have pretended to be

possessed of in January, 1871, wherewith to buy $50,-000,000 of property. Two hundred thousand dollars! We believe that we have seen it stated that many of the purchases were made "over night"—that is, in the most secret manner—so as to prevent the public from knowing the intentions of the company. In intimating, as he did, to the London people that the lands might have been bought by open-share capital Mr. Gowen must have meant one of two things—either that Reading could have bought and paid for the lands itself and issued shares representing the purchase-money to its then existing stockholders, or that it could have contracted for the purchase and then invited by prospectus a public subscription. In the first instance it had, as we have shown, $200,000 with which to buy $50,000,000 of property; and, in the second, if the lands had been worth buying, the shares would most certainly have passed into the hands of the rival companies, who had not only "credit" but cash. Indeed, Mr. Gowen, speaking before the foreign bondholders' committee in London, in June, 1877 (see page 126, report of January, 1878), gave as his reason for buying these lands that "the State offers to any rival company full authority to construct an adverse line of railway." "It seemed to me, therefore, necesssary to place the Philadelphia and Reading Railway in such a position that its mineral traffic could not be taken away from it, and I knew of no other way than by their becoming the purchasers of the coal land itself." And yet the London audience, in response to Mr. Gowen's unwarranted intimation, cried: "Hear!" "Hear!" His second admitted mistake was that the company had not stopped three years ago, as they were advised to do. He thought he "could carry the load." This is just what he has been thinking since 1871. He proceeds: "And at last I stopped for want of £100,000 ($500,000), which I could

have got the day I stopped; but as I could not see my way to pay it I would not take the money." He tells the same audience (at page 8) that the company possesses "securities which have a market value to-day of over $20,000,000, which it would be a great loss and injury to the company to part with even at $30,000,000." As these securities were hypothecated for a floating debt which Mr. Gowen stated (page 7) "to-day amounts to some $10,464,000" only, it looks a little odd that he should have permitted his company to go into the hands of receivers for want of another $500,000. We fear that the rule for valuing a Galway estate will have to be applied to these securities to find out what they are worth. From the sum given subtract one-half its amount, divide the remainder by three, and the quotient will be the true value. This would, in the Reading case, give $5,000,000, which, after all, is more than the pledged general mortgage bonds are worth. Mr. Gowen continues: "But I am glad to bring with me to-day, and to lay before you, some little evidence of returning prosperity to show that the tide is changing. I can say that during the past year, when for nine out of the twelve months we worked but half time, we have earned fully $2,250,000 more than we did last year." (Applause.) Mr. Gowen, however, carefully omits to inform his hearers why they worked but half time for nine months, and that, notwithstanding this unwonted prosperity, they fall short of meeting their fixed charges by $1,500,000. With regard to the half time work, it was rendered necessary by the market being overstocked by the surplus production of 1879; and there appeared to be so great a danger of this being repeated in 1881, that one of Mr. Gowen's last acts before leaving for London was to solicit the other companies to work on half time for the present winter. We have already seen in the past that, whether there be a restricted output with high prices, or an unlimited produc-

tion with low rates, Reading is handicapped with such a weight of debt as to be invariably distanced in the race. No better illustration of its relative position to the other companies is needed than the bare statement that whilst Mr. Gowen claims that the company owns thirty-three per cent. of all the anthracite coal lands, and forty per cent. of all the coal in the country, he was obliged in the last board of control arrangement to accept twenty-eight and five-eighths per cent. of the output, and admitted (page 26, report January 13th, 1879) that Reading's cost of mining coal was thereby increased nineteen and eight-tenths cents per ton over the previous year—eleven and eight-tenths cents of which is due entirely to the decreased production necessitating the division of certain total fixed expenses by a greatly diminished production." These are Mr. Gowen's words, and the fixed expenses he speaks of are mainly the interest and sinking fund charges on the bonded bebt, from which the other companies are comparatively free. Mr. Gowen goes on (page 5):—"And I have great satisfaction as justifying the predictions I have made in the past, as to the earning power of the company, in reporting to you that in the only three months of the year when we were able to work full time, we increased our profits more than a million and a half over the same period of last year. It is enough for me to say that if such an increase of profit had been carried over six months—certainly if it had been carried over eight months—every prediction I made in this room three years ago would have been abundantly realized." This means, we suppose, that the companies earned in the three best months of 1880, a million and a half dollars more than they did in the three worst months of 1879, which, considering that their loss for 1879 was $2,817,858, does not seem much to boast of, and that if they could have continued their highest rates of earnings over the whole eight months of the

working season, Mr. Gowen's predictions might have been fulfilled. If, however, Mr. Gowen would indulge in fewer "ifs" in his reports and addresses, he would more frequently escape the charge of childishness. There are certain natural laws that may not be disobeyed. One of them is the law of supply and demand.

That Mr. Gowen understands the weak points in the English character is evident by his artful appeals to their characteristic love of fair play as well as by his flattery of the national pride in his allusion to Waterloo at the meetings of June, 1877, and December, 1880. These were so effective that in the report of the proceedings at the last meeting there is scarcely a page that does not abound with exclamations of "Hear! Hear!" "Cheers;" "Applause;" "Loud applause;" "Go on! Go on!" "Bravo! and loud applause," reiterated *usque ad nauseam.* In truth, Mr. Gowen and the *claqueurs* seem to have had it all their own way. One misguided gentleman—a Mr. Branch—had the temerity to attempt to ask Mr. Gowen a question, and to say something to the meeting on the business before it, but he was promptly suppressed—lopped off, so to speak—and a motion put to the meeting and "carried by acclamation" (see page 30) that he be not heard.

After admitting the two mistakes we noticed in a former issue, Mr. Gowen endeavored (page 6) to explain the floating debt and the reason for its increase. As the explanation bears directly upon the question of the proposed issue of $34,000,000 of deferred income bonds, we ask special attention to Mr. Gowen's line of reasoning on the subject. He says: "About the propriety of having incurred this floating debt I simply want to say this, that until the period at which we stopped in 1876 it was never increased beyond the then current market value of the unissued bonds that we had laid aside to meet it—never." (For the information of our readers we state that these

bonds were a balance of $5,000,000 of the general mortgage bonds.)

Now if any person, except Mr. Gowen, can find in the fact of the company being unable to continue the payment of unearned dividends a sufficient reason for increasing its floating debt from $5,000,000 to $10,464,000, we beg that he will use our columns to any extent to state and defend it. We think that any man but the president of the Reading would have discovered in that circumstance an overwhelming argument for at once disposing of the the bonds and liquidating the floating debt, instead of enlarging it. But this reasoning of Mr. Gowen's is logic itself compared with the stultification which immediately follows. Read: "When we met with reverse, and the securities of the company went down to fifty cents on the dollar, and it was impossible to relieve the company by selling them without the danger of having to pay ten or twelve per cent. for the money, I declined to sell any securities or to issue any bonds. I could look into the future, and knowing what I knew about the value of this property, I could not, during my term of office, saddle the company with the liability of paying for thirty or forty years twelve per cent. for money for relief from merely temporary difficulties. [Applause.] We had, however, in the treasury of the company, a vast amount of valuable collaterals. We had $5,000,000 of the general mortgage bonds. We had other bonds. We had $5,000,000 or $6,000,000 of the best securities of the leased lines, paying over six per cent. rates of interest, that from time to time, as we could afford it, we had bought, and we had other valuable securities, all of which added together were worth from $17,000,000 to $18,000,000. With these securities we have borrowed all the money we wanted." If it be true that they have borrowed all the money they wanted, how happens it that they paid their employees in 1878 (see page 19 of report, January 13th, 1879)

$983,141.59 in wages certificates of $10 each, and how does Mr. Gowen account for the existence of Receivers' certificates to the amount of $2,279,485.91 ? But to get back. If we have been successful in our attempt to get at the meaning of the last quoted sentences, it is that Mr. Gowen was unwilling to saddle the company with the liability of paying for thirty or forty years twelve per cent. for money, and that rather than do that he would run in debt $5,000,000 more.

Now, what do our readers suppose was Mr. Gowen's errand on that platform at that time ? It will hardly be believed, but it really was nothing more nor less than to ask his audience to buy $34,000,000 of six per cent. bonds at thirty cents on the dollar, and thus saddle the company, not for thirty or forty years, but for all time, with the liability to pay, not twelve per cent., but twenty per cent., for money. This was what the indiscreet Mr. Branch wanted the meeting to understand; but Mr. Gowen's friends would not permit it. Here follows a deeper plunge into the abyss of stupid contradiction. "It was, therefore, better for the future of the company to raise money by pledging the securities at six or seven per cent., than to incur a perpetual or long time obligation of ten or twelve per cent. And we did it." [Hear, Hear.] Well, if it was better then, why is it not better now ? Money was never so plentiful in America as at present. It is going a begging on Wall street at five per cent. on any decent stock collaterals, and it is certain that three and a half per cent. will be the highest rate for the government refunding operations. It might be well to remind the English public of a pithy remark made before the House of Parliament by the late Duke of Wellington, who, like our own great military chieftain, was prone to look at things in a practical light: "The higher the rate of interest the poorer the security." We venture now to predict that these securities which Mr.

Gowen refers to generally, but refrains from particularizing, will, when brought out to public view be found to owe whatever value they may possess entirely to whatever ability the Reading Railroad Company may in the future possess to pay from its annual earnings the stipulated rentals under which its associated lines are leased. These rentals are charged to the operating expenses (as Mr. Gowen observes), and are, therefore, as much a fixed charge on the gross earnings as interest is upon the net receipts.

It requires but little penetration to see that if any persons but stockholders should buy the proposed deferred income bonds at thirty cents on the dollar, and it were possible that the companies could ever pay six per cent. dividend on the present stock, that then the stockholders must suffer the injustice of having the further earnings diverted to pay twenty per cent. on the amount proposed to be raised by the sale of the deferred income bonds. We speak now of the inherent viciousness of the scheme. The two matters—the $34,000,000 deferred six per cent. and the $150,000,000 perpetual five per cent. bonds—are bound up together, and, aside from the question of legality, we see no reason to believe that, as business propositions, they can be carried through. Our readers must not be startled when we tell them that this deferred-bond plan is not a conception of Mr. Gowen's. It originated in no desire for the welfare of Reading, but with a man who is apparently using Mr. Gowen as a tool for his own pecuniary profit. In July, 1880, the president wrote to the Messrs. McCalmont: "Now that disaster has come, I can see how in this, as in other matters, I have been blind; but I never looked at any side but success, and I deceived myself more than any one else. I cannot but say that I feel for your losses much more than for my own, and that I am now and always ready to withdraw from the receivership in favor of any one who

will give greater confidence to the owners." That is. Commander Gowen cried *peccavi* and abandoned the ship, Something, however, occurred between July and December to brace him up, for at the London meeting of December 23d, we find him on deck assuring all hands that "so long as we are among the breakers and the storm I propose to hold on as captain of the ship and get her into safe waters."

The something was the deferred bond scheme. At page 72 of the pamphlet issued by Mr. Gowen on 6th of December is a copy of a letter dated 8th of November, 1880, from Mr. Powell to Mr. Gowen, in which occurs this pregnant passage:—"Messrs. McCalmont asked me to see you to discuss some plan instead of Mr. McEwen's deferred scheme. You reply in effect that that scheme is settled and pretty safe to go forward." The Mr. McEwen here referred to is better known in London stock circles than on this side of the water, but the inference is plain that he saw in Reading's difficulties his opportunity for profit, and accordingly placed himself in communication with Mr. Gowen. His plan, from subsequent developments, appears to have been as follows:—Mr. Gowen's part in in it was to assure everybody, as he has done, of the certainty of the companies being able to earn a certain amount of money if certain conditions were complied with. Mr. McEwen and his associates were meanwhile to form a pool to purchase a large amount of the stock, and provide a deposit of $2,000,000 to guarantee the success of the bond scheme. The stock has been carried up from ten to thirty-three by the clique, and kept up per force, because if they are caught selling, the bears will put it back to ten very suddenly. But the guarantee deposit, although required by the court, has, we believe, never been heard of except in the shape of a mythical letter of credit on Paris from some unknown

and unknowable parties, and an authorization by Mr. Gowen to his co-receivers to draw on him for £420,000 sterling. We suspect that Mr. Gowen's coadjutors are disposed to look out for No. 1, and are not going to put up the $2,000,000 deposit or caution money, as they doubtless realize by this time that they have a more hazardous job on hand than they bargained for. Judge McKennan's decision and the approaching Ides of March are not likely to reassure them. It will be seen that the inspiring motive of the deferred bond scheme was the hope of personal profit, while its success would insure a continuance in office to the present administration.

At page 9 of the report Mr. Gowen tells his London hearers that "it took to pay ten per cent. in olden times on the share capital of the company $3,400,000. It only takes a little over $4,000,000 now to pay six per cent. upon the common shares and the six per cent. upon the deferred bonds." As mathematical and independent facts these statements are true. But when taken in connection with the additional circumstances that in the olden times Reading had only $583,173.63 to pay as total interest on the year 1870, whilst that account for the year 1879 foots up $5,108,585.85, and must be earned and paid before the stockholders get anything, we consider it as misleading as anything the president ever said, and that is using strong language. He continues: "And when I tell you that the traffic of the company is to-day of such magnitude that six-pence per ton upon its tonnage of this year is equal to five per cent. upon the share capital, you must see that there is a great future reserved for it." This reminds one of the Hibernian, who being advised to return to Ireland, where he might buy potatoes at a shilling per bushel, replied that the difficulty was to get the shilling. Mr. Gowen proceeds: "If anybody tells me that the reversion of the earnings of the

company, after paying six per cent. on its share capital, is not worth $10,000,000, he knows little about the extent of the property; and any shareholders or association of shareholders that will subscribe and buy the reversion of this company for ten or twenty years for $2,000,000 will make a good investment." How does this advice read alongside the pitiful acknowledgment to the McCalmonts in the July preceding? "I can see how in this, as in other matters, I have been blind, but I never looked at any side but success, and I deceived myself more than any one else."

This is serious business, Mr. Gowen. The truth in regard to this boasted "extent of the property" is that it is this very quality that has ruined Reading. If it had been twice as extensive the companies would have gone into receivers' hands in 1877, immediately after the investigation of the Smith committee, instead of in 1880. But if there had been no such committee the companies, with twice the indebtedness, under Mr. Gowen's plan of charging on the railroad company's books the interest to the coal and iron company, and charging on the coal and iron company's books the interest to the cost of the coal lands, might have paid twenty per cent. dividends instead of ten. We commend this suggestion to Mr. McEwen, but he must beware of Smith committees. Mr. Gowen closes his remarks (page 10) on the subject of the deferred-bond scheme with the observation: "We believe the security to be a good one." We regret, for the sake of the stockholders, that we must dissent from him. It is simply asking persons to throw good money away after bad. The whole project is the artful device of a wily and experienced operator in stocks, put forth on the principle that drowning men will grasp at a straw. The offer to put up a deposit of $2,000,000 was, we believe, a sham, coupled as it was with the condition that it should be returned to them if they did not subscribe. This may

be seen from the tenor of Mr. Gowen's cablegram to Receiver Lewis, of January 11th: "You will agree with me that as deferred income bonds are already subscribed for to nearly double the amount of issue, which will be treble by Saturday, and as guarantors get none under their contract, and therefore owe us nothing, it would be wrong, if not dishonest, to keep them out of their money, and involve the company in $10,000 cost transferring it to Philadelphia and back."

Reserving any notice of the proposed issue of $150,000,000 of five per cent. bonds for a future occasion, we have some remarks to make now on the assertions made by Mr. Gowen on page 13 of the report of the meeting of 23d of December. He is discussing the $150,000,000 bond matter, and says:—"The United States Court, which has charge of the property of the company, and without whose orders the receivers themselves could not act, has authorized and empowered the receivers of the company to make the issue of deferred bonds. We have therefore, in the first place, all the legal power and authority necessary to make the issue." For ourselves, we fail to see how the authority to issue deferred bonds to the extent of $34,000,000 conveys "all the legal power" to issue $150,000,000 of five per cent. bonds. He goes on:—"I did not call this meeting, nor come across the Atlantic, with the view of soliciting money-aid from any of the shareholders of the company. [Hear, hear.]" Oh, Mr. Gowen! Don't you recollect that on November 30th you addressed a letter to the stockholders warning them of the intrigues of the Pennsylvania Railroad Company, and that you began that letter with these words:—"As I am about to visit Europe on business for the company;" and do you not remember also that you caused to be printed in the *Pall Mall Gazette*, of December 6th, a notice reading, in part, as follows:—"The undersigned, President of the above company, will be in Lon-

don between the 15th and 20th of December to confer with shareholders and bondholders, and to submit a plan now prepared for the immediate restoration of the company to credit and prosperity." And, notwithstanding this, you tell the London people that your visit was for the purpose of telling them that you had not told Mr. Powell a falsehood." "I came across the Atlantic, however, for an object which would have carried me here irrespective of any financial condition of the company." "I thought it was my duty (at some personal inconvenience to myself, for I believe for thirty-one years this is the only Christmas I have not spent at home, and on that occasion I was ill at school) to come over to England to give the English shareholders an opportunity to ask whether I was such a man and to tell them that I was not." Oh, Mr. Gowen, oh!! Was not your errand to England to make your peace with the Messrs. McCalmont and get their proxies?

The following communication is specially pertinent to-day.

Financial Editor of The Record:

The recent decision of the court making the issue of the deferred bonds subject to the approval of the stockholders imposes a grave responsibility upon the latter, on the intelligent discharge of which may be said to rest the future of the company.

It is of course well known now that there are two opposing views on this subject, viz.:—that of the Messrs. McCalmont, the oldest and largest individual shareholders, and gentlemen of unquestioned financial skill and experience, who are unalterably adverse to the measure, and that of Mr. Franklin B. Gowen, the present president, under whose management the company, from a state of prosperity, has been plunged into a condition of bankruptcy.

During his absence of some three months abroad, from which he returned on the 5th inst., the president has twice addressed public meetings in London, called at his instance, at which he has made statements concerning the condition of the company which, to say the least, do not command the as sent and confidence of persons here who are in a position to judge of their accuracy. At the last of these meetings, held on 4th February, at which, according to his own statement, Mr. Gowen succeeded in obtaining the approval of his management of some three hundred and five thousand shares, "with but one disputant," the letter of Messrs. McCalmont, expressing their views, was refused a hearing.

It is quite unnecessary here to characterize this proceeding; but in view of the express revocation by the court of any authority to the managers to issue these bonds, it is of the last importance now that the stockholders should have ample time afforded them to deliberate calmly upon the situation.

In his address to the meeting last referred to, Mr. Gowen, with characteristic audacity, declares that, although he may be defeated at the election on Monday next, he will nevertheless, if he has what he conceives to be a sufficient moral support, hold on as receiver. To accomplish this it is evident that he relies upon his ability to force a vote in his favor, and possibly on the bond issue, at the coming election, using for the purpose any proxies he may have obtained by representations which the Messrs. McCalmont do not hesitate to pronounce untruthful, and which doubtless will be withdrawn when all the facts are made public. The charter denies the right of suffrage to any vote that shall not have been registered for three calendar months prior to the election, and the idea now advanced that voters, although disqualified from choosing the officers of the corporation, may yet pass upon the most vital questions

affecting its welfare, is too absurd for comment. Such a course would not only create two separate qualifications of franchise, but would place the destinies of the company in the control of a reckless band of stock-gamblers with whom it is believed the defunct bond scheme originated. It is the last resource of a desperate man, and must be met and defeated. The means are simple. It is the duty of the managers to present at the annual meeting, on Monday, 14th instant, "a complete statement of the affairs and proceedings of the company for the preceeding year;" and care must be had that no action be taken upon any question affecting the future until a sufficient time shall have elapsed to permit a full examination of the report. This time should be at least one week from the publication and distribution of the report and accompanying statement in pamphlet form, which is usually two weeks after the annual meeting, making in all a delay of say, three weeks after the meeting on Monday next. The crisis of the company's fate is upon it. The public will judge of the honesty of Mr. Gowen's professions by his action on this question.

CANDOR.

PHILADEPHIA, March 8th, 1881.

Under date of February 14th, 1881, Mr. Gowen has put forth a reprint of a circular issued to the English shareholders, the subject matter of which is a ridiculous and unwarrantable attack upon the Messrs. McCalmont and an attempt to justify his proposed bond issues.

As the Messrs. McCalmont have already rebuked the president in a dignified but unanswerable letter, which has been published here, we pass this subject by, but ask attention to an examination of the practicability and value of his projected bond schemes. He says on page five of the circular, "The incubus of the floating debt will be removed by the successful issue of the Deferred Income Bonds, and all that is wanted to place the finances of the

company in a sound condition is the funding of existing obligations into the new five per cent. mortgage consols. The success of the latter issue is no longer doubtful, and when $100,000,000 have been funded, the company will be in a position whenever it can secure six full months business out of twelve, to pay six per cent. upon the common shares and three per cent. upon the par of the Deferred Income Bonds; and six weeks additional full work will bring the dividend upon the Deferred Income Bonds up to par." We need not point out the strong family likeness of this declaration to all of the president's preceding predictions which, as Messrs. McCalmont have told him, have been characterized by a nearly steady uniformity of failure. The fulfillment of the last promise depends altogether upon the funding of $100,000,000 of five per cent. consols "without sinking fund or foreclosure clauses," and the securing by the company of six full months business out of twelve; one of which events is as like to occur as the other, and both of which, as we shall show, are to the last degree improbable, if not indeed, in the very nature of things impossible. The president speaks here as if the removal of the floating debt by the issue of deferred income bonds and the sale of the five per cent. consols "without sinking fund and foreclosure clauses," were accomplished facts. The truth, however, is that the deferred income bonds, under the last decision of court, will not be emitted until the stockholders so decide, and it is a foregone conclusion that when they come to understand the true position of affairs, they never will permit their issue. Their sale could only bring $10,000,000 in cash, six per cent. on which, or $600,000, would be the extent of the annual saving to the company. Any further saving in fixed charges could only arise from a reduction in interest charges and sinking funds on the bonded debt, which, outside of the leased lines' obligations, which we

will consider hereafter, amounts to $95,058,237, or, deducting the unissued $5,000,000 of general mortgage bonds, $90,058,237. Now, what the stockholders, who have to vote on the issue of the deferred income bonds of $34,000,000, need to be informed about, is as to the position of this bonded debt, and the probability or possibility of its being retired, exchanged or paid, as it is clear that unless it be removed the issue of the deferred bonds, under the danger of foreclosure by the senior securities would, by giving the deferred income bonds priority of lien over the stock, be suicidal. The bonded debt is as follows:—

Consolidated...............	1871–1911,	$24,206,500	@ 6.5 pr. ct.	$1,580,800
Improvement...............	1873–1897,	9,364,000	" 6 "	561,840
Coal Lands................	1891,	12,969,000	" 7 "	905,900
Real Estate................		2,632,808	" 6 "	162,993
General Mortgage Scrip,		1,741,620	" 6 "	104,497
General Mortgage.........	1874–1908,	19,696,000	" 6 "	1,181,760
Income Mortgage.........	1876–1896,	2,454,000	" 7 "	171,780
Income Current Scrip.....		3,400,909	" 6 "	204,054
		$76,464,837	" 6.3 "	$4,873,624
Open Debentures..........................		13,593,400	" 7 "	931,576
		$90,058,237	" 6.4 "	$5,805,200

So far from the five per cent. issue being no longer doubtful there appear to be two insuperable obstacles to their being placed:—

First.—The present holders of the above $76,464,837 of bonds, which have an average of some twenty-five years to run, being reasonably certain of receiving their interest of six and three-tenths per cent., and being protected by foreclosure clauses and sinking funds, will not accept payment before maturity because they can not re-invest their money on so favorable terms, nor will they exchange for a five per cent. security unprotected by "sinking funds or foreclosure clauses." These charges therefore, $4,873,624 of interest and sinking funds of $630,000 amounting together to $5,503,624 must undoubtedly stand.

Second.—When the public comes to understand that the assets of the company are overvalued by Mr. Gowen to the extent of $46,000,000 above what the books and what Mr. Harris's estimate of the coal lands show, and that instead of having a security of $161,000,000, as given by Mr. Gowen's list of assets, they will only have one of $115,000,000 for an issue of $100,000,000 (leaving out of consideration $50,000,000 to be represented by leased lines' securities), it is impossible to believe that any buyers can be found.

For these two reasons it seems certain that the five per cent. consols "without sinking funds or foreclosure clauses" can never be sold, and equally certain that the stockholders will never authorize the issue of the deferred income bonds. Bad and almost hopeless as their case at present is, they are not likely to voluntarily abandon their property. It is far more probable that they will range themselves with the oldest and largest stockholders, the Messrs. McCalmonts, and be guided by their financial skill and experience. These gentlemen propose, first, to displace the management that has wrecked the company; next, to replace it by a board of business ability, and finally, after ascertaining the exact condition of affairs, which at present is unknown, adopt some policy looking to a possible rescue of the property.

As to the probability of the company's securing six months work out of the twelve, this is a matter entirely depending on the disposition of the rival companies. They never have permitted it, because such an event would overstock the market to an extent that they cannot afford. They never have allowed it, and probably never will. Reading owns one-third of the land and 40 per cent. of the total coal, but is obliged to be content with $28\frac{5}{8}$ per cent. of the total output. This shows its dependent position and tells the whole story.

The leased lines securities valued by Mr. Gowen at $50,000,000 as portion of basis for issue of the $150,000,000 five per cent. consols, considered in detail.

We have already shown that the issue of the deferred bonds of $34,000,000, affording at the utmost a relief to the company of six per cent. on $10,000,000, or $600,000 per annum, is not worth consideration, unless the fixed charges on the present bonded debt, amounting to some $6,000,000, be *first* provided for. We have demonstrated, also, that the present secured position of the holders of $76,000,000 of the mortgage bonds forming a part of the present bonded debt, absolutely precludes the possibility of providing for these $6,000,000 except by payment in the ordinary course of maturity, because the holders will surely not exchange a six and three-tenths per cent. twenty year security, protected by sinking funds and foreclosure clauses, for a five per cent. bond without this protection; and, as certainly, will not accept payment before maturity, for the reason that they can not re-invest their money on equally profitable terms. The Government rate will not exceed three and one-half per cent.

The grand total of the company's debt, as stated by Mr. Gowen at page 15 of his pamphlet of December 6th, is		$149,387,884 00
Consisting of second mortgage bonds	$75,609,928 00	
Bonds with doubtful or no security	19,448,309 00	
Obligations on account of leased lines	54,329,647 00	
		$149,387,884 00

To-day we give the public some details regarding the leased lines, to enable them to judge of their probable value, as well as the value of Mr. Gowen's statement at page 18 of his pamphlet, that they are worth $50,000,000.

They are divided by Mr. Gowen into two classes, Nos. 4 and 5 :—

	Years.	Principal.	Rental.	Annual.
Mine Hill	999	$4,022,500 00	8 per ct.	$321,800 00
Mount Carbon	50	282,350 00	12.8 "	36,250 00
Mill Creek	999	323,375 00	10.2 "	33,000 00
Schuylkill Valley	999	576,050 00	5.1 "	29,450 00
Little Schuylkill	93	3,506,650 00	6.1 "	213,280 00
East Pennsylvania	999	2,205,450 00	6.3 "	138,650 00
Norristown	999	2,246,900 00	12.4 "	277,623 00
Chestnut Hill	999	120,650 00	13.6 "	16,478 00
North Pennsylvania	990	11,547,789 00	6.5 "	754,145 00
Bound Brook	990	3,386,799 00	6.6 "	224,207 00
Total No. 4		$28,218,513 00	7.2	$2,044,883 00

For simplicity of illustration, let us suppose that these $28,218,513 represent bonds having nine hundred years to run, bearing an interest of seven and two-tenths per cent., and that the earnings of the roads issuing them are sufficient to pay this interest; is there, under such circumstances, more than one person in "this breathing world" that will suggest the possibility of their holders either exchanging them for five per cent. consols "without sinking funds or foreclosure clauses," or accepting payment for them before maturity? But let us entertain conjecture of a very different state of affairs. Let us suppose that on the first five named roads the cost of moving coal is three cents per ton per mile, but that to prevent competition it is necessary to place the rates on them at two cents, and that, consequently, so far as the Reading Railroad Company is concerned, there is a steady loss on these leases. Let us suppose that this loss is never suffered to appear specifically in the annual report, being merged in the gen-

eral transportation expenses. Let us suppose that the same system of merging obtains also in respect of the second five leases named in class No. 4, and that it is impossible by an inspection of the annual report to know what is the truth regarding them. Let us suppose further, and this we believe to be the case, that at present, with one or two exceptions, there are no separate accounts kept of the earnings and expenses of the various leased lines, so that their net earnings may be determined. What becomes of the statement of Mr. Gowen that these securities are worth $50,000,000?

Is it not plainly the duty of the stockholders to interpose at the election on Monday next, and place the management in the hands of officers who can at least keep their accounts in such a manner as to be able to determine whether their contracts are sources of profit or loss?

The following are the leases of class No. 5:—

	Years.	Principal.	Rental.	Annual.
Catawissa Railroad, . . .	999	$6,161,850 00	5.9 per ct.	$365,235 00
Schuylkill Navigation, . .	999	12,736,588 00	5 "	635.776 00
Susquehanna Canal, . . .	999	5,029,396 00	4.8 "	243,588 00
Chester Valley, ...		500,000 00	6 "	30,000 00
Colebrookdale, ...		600,000 00	6 "	36,000 00
Pickering Valley, ...	25	332,300 00	7 "	23,261 00
Schuylkill Iron, ...		12,000 00	7 "	840 00
Danville Iron, ...		39,000 00	7 "	2,730 00
Newton Railroad, ...		700 000 00	6 "	42,000 00
Total No. 5, ...		$26,111,134 00	5.3	$1,379,330 00

Of the leases contained in No. 5, it happens fortunately that the business of the two canals, representing a capital obligation of $17,765,984, necessitated the keeping of distinct accounts, so that we can lay before our readers the results of their operations since the dates of their leases.

Here they are, a uniform loss:—

LOSS ON BUSINESS, SCHUYLKILL CANAL COMPANY.

1870	$11,973 88	
1871	15,446 25	
1872	351,765 52	
1873	61,605 22	
1874	216,927 94	
1875	125,716 45	
1876	246,853 27	
1877	173,754 99	
1878	98,682 51	
1879	300,080 76	
Total loss in ten years		$1,602,306 79

LOSS ON BUSINESS, SUSQUEHANNA CANAL.

1872	$116,490 08	
1873	257,790 48	
1874	161,019 13	
1875	172,270 09	
1876	163,096 52	
1877	180,339 21	
1878	179,926 79	
1879	175,381 46	
Total loss in eight years		$1,406,313 76
Total loss on both canal leases		$3,008,620 55

Of these two leases it is unnecessary to say any more than that they form an integral part, to the extent of thirty-two per cent., of what Mr. Gowen represents to be worth $50,000,000; that the loss in ten years on their united

capital of $17,765,974 has been seventeen per cent., and that Mr. Gowen, under his proposed $150,000,000 five per cent. consols scheme, seeks to include and perpetuate them.

The Gowen administration of the Reading Railroad Company is arraigned on the following counts:—

Business incapacity.

Willful suppression of the truth.

Deliberate and fraudulent misrepresentation.

Forgetfulness of the president that he is the paid employee of the company, and not its owner and the supreme arbiter of its destinies.

The business incapacity of the administration is fully shown by the purchase by the company in 1871 and 1872, entirely on credit, and subject to the payment of interest thereon, of an immense body of coal lands, absurdly and ridiculously disproportionate to its capital (of which it had none), its carrying capacity, and the annual demand for consumption of the country. The conception was a compound of ignorance and vanity, and has borne its legitimate and inevitable offspring—ruin. Now that the catastrophe has come, an equal incapacity is manifested by the putting forth of baseless and impracticable funding schemes to professedly extricate the company, but which, if permitted to go into operation, would perpetuate its bankruptcy.

As evidence of a willful suppression of the truth, it is only necessary to point to the delay in furnishing any report of the operations of the coal and iron company. From the date of its organization, in December, 1871, to the present time, this corporation has been by far the most important part of the railroad company's affairs; but no account of its doings was made public by the managers until January, 1877. The losses of the coal and iron

company, during the years of concealment, were as follows:—

Loss in year 1872	$2,302,071 18
Loss " " 1873	3,330,641 34
Loss " " 1874	3,770,159 91
Loss " " 1875	4,784,124 31
	$14,186,996 74

Of deliberate and fraudulent misrepresentation there are, alas! but too many flagrant instances. We cite but one. *Ex uno disce omnes.* Mr. Gowen's plan for the financial reorganization of the companies, as set forth in his pamphlet of December 6th, 1880, contemplates the issue of $150,000,000 of five per cent. consols, to which is attached the unheard-of provision that they shall be "without sinking funds or foreclosure clauses!" In order to mitigate in some degree the absurdity of the idea, he states, at page 21, "it will be necessary to guard against the loss of security due to the gradual exhaustion of the coal in the lands of the company, and for this purpose I would propose that five cents for every ton of coal taken from the lands, which would amount before exhaustion to at least $90,000,000, should be annually paid into the hands of the trustee of the mortgage, &c." Within the covers of the same pamphlet is to be found (page 24) the written request of Mr. Gowen, to Mr. Joseph S. Harris, that he make for the receivers "a full report upon the condition, value, and capacity for production, and present and future earning power of the coal lands and colliery property of the Philadelphia and Reading Coal and Iron Company." The pamphlet also contains Mr. Harris' report, at page 12, of which he says:—"In July, 1879, I prepared a report on the probable duration of the Pennsylvania anthracite supply, in which, from independent data, I estimated that

one billion one hundred and eighty-nine million tons of coal could be shipped from the Reading Company's estate. Within the last few months the company's engineers have again investigated the subject, in a new manner, and from data not heretofore used. * * * This estimate gives one billion two hundred and eight million two hundred and fifty-four thousand tons as the amount that the estate should yield. This quantity agrees closely with that reported by me, as quoted above; but as mine was but a good general estimate, and this was derived from a much more careful computation, I have adopted it as being the best attainable result."

Mr. Harris' estimate, therefore, and that of the company's engineer, place the total yield at one billion two hundred and eight million two hundred and fifty-four thousand tons, which, at five cents per ton, would produce the sum of $60,412,700, instead of $90,000,000, as Mr. Gowen gives it.

When it is considered that the president had these reports at hand, as also the estimate of Mr. Harris (see page 32 of latter's report) that at the date of exhaustion, the total value of the yield of coal would only be $31,303,902, it must be conceded that this is an instance of "deliberate and fraudulent misrepresentation." When it is further considered that the above statement was made by Mr. Gowen to induce parties to buy the $150,000,000 five per cent. consols, the president may think himself fortunate if the court and the stockholders prevent the consummation of the scheme and its prospective unpleasant consequences to himself.

In contemplating the future administration of the companies, "the forgetfulness of the president that he is a paid employee" is perhaps the most alarming feature of the case. The truth is, that their government has come to be an autocracy in which one man is supreme, and no others have any rights which he is bound to respect. Nor

is this state of things sought to be concealed. Mr. Gowen's reports, statements, and addresses everywhere abound with the personal pronoun *ego,* and his attack on the representative to this country of the London bondholders' committee, and more recent abuse of the oldest and largest stockholders, must satisfy every person that if there were no other objections, his dogmatic self-conceit is such as to entirely disqualify him for having any voice in the management of a business enterprise.

Finally we have but little to add to this strange, eventful history, but it must be in words of earnestness. A clear issue is made up between the oldest and largest shareholders of the Reading Railroad Company and their chief officer, in whom they declare they have lost confidence. For ourselves, we do not believe that the Messrs. McCalmont and their friends consider their stock to have any present pecuniary value, but they are large bondholders, and, as we long ago pointed out, there is a very plain intimation in the second report of the Lord Cairns' committee that they are prepared, in the last resort, to assert and maintain their rights. In our view of the case, the re-election of Franklin B. Gowen and foreclosure are synonymous terms. We believe that the prudent course in this matter, for even those stockholders who have not lost faith in Mr. Gowen, to pursue, is to unite in displacing him, in order to arrest the calamity of a sale under foreclosure. The patient, dignified forbearance of the London bondholders has been outraged by insolent and even profane contumely, and has, at last, given way. The hinted loss of valuable franchise through a foreclosure is purely imaginary. It is only a question of time, and probably of a very short time, as to when the company will have to ask and accept legislation that will bring it as certainly under the operation of the new constitution as would a foreclosure sale. In a period of thirty-eight years, from 1836 to

1873, it has had forty-two special acts, and although it is now avoiding these, it would seem impossible but that the rapidly-changing aspects of the railroad business of the country will compel it to seek legislative aid in some shape or other. Our parting words, then, to the stockholders are, Choose ye, this day, and choose wisely!